

**BY ORDER OF THE COMMANDER  
AIR FORCE AUDIT AGENCY**

**AIR FORCE AUDIT AGENCY INSTRUCTION  
65-103**



**16 SEPTEMBER 2011**

**Financial Management**

**AUDIT MANAGEMENT  
AND ADMINISTRATION**

**COMPLIANCE WITH THIS PUBLICATION IS MANDATORY**

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This instruction, which implements Air Force Audit Agency (AFAA) Policy Directive 65-1, *Internal Auditing*, contains selected audit procedures and responsibilities for accomplishing installation-level and centrally directed audits (CDAs) within the Air Force. This instruction also establishes policies for management and administration of AFAA offices. This instruction incorporates government auditing standards required by the Comptroller General and is mandatory for all AFAA elements when performing their specified duties and responsibilities. Requests for waivers to this instruction must be submitted to HQ AFAA/DOV in writing. This instruction is not intended to provide specific guidance for every situation or condition auditors may encounter in conducting an audit. Accordingly, auditors must consult appropriate levels of AFAA management for guidance as necessary. This instruction does not apply to employees assigned to Air Force Reserve Units, the Air National Guard (ANG), or the Civil Air Patrol. This publication requires the collection and/or maintenance of information protected by the *Privacy Act of 1974*. The authorities to collect and/or maintain the records prescribed in this publication are Department of Defense Instruction (DoDI) 7600.02, *Audit Policies*, and Air Force Instruction (AFI) 65-301, *Audit Reporting Procedures*.

All AFAA elements are encouraged to submit suggested changes to this instruction, through appropriate channels, to HQ AFAA/DOV using AF Form 847, *Recommendation for Change of Publication*. HQ AFAA/DOV may approve or issue instructions to implement or supplement the procedures contained herein. In addition, directorates may issue operating instructions (OIs) to implement or supplement the procedures in this publication. Directorates should provide HQ AFAA/DOV and HQ AFAA/DORI a copy of all new or revised OIs.

All records created as a result of processes prescribed in this publication must be maintained in accordance with Air Force Manual (AFMAN) 33-363, *Management of Records*, and disposed of in accordance with the Air Force Records Disposition Schedule (RDS) located at <https://www.my.af.mil/afrims/afrims/afrims/rims.cfm>. The use of the name or mark of any specific manufacturer or commercial product, commodity, or service in this publication does not imply endorsement by the Air Force.

## **SUMMARY OF CHANGES**

This document is substantially revised and must be completely reviewed. Major changes include: updates to reflect changes in guidance and requirements contained in the 2007 *Government Auditing Standards*; updates and changes related to implementation of CCH® TeamMate (hereafter referred to as TeamMate) electronic working papers; changes necessitated by the transition from the Defense Automated Management Information System (DAMIS) to the AFAA Management Information System (AFAA MIS); clarification of requirements and procedures based on 2008 Peer Review results; and consolidation of processes and procedures common to both installation and centrally directed audits.

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## Chapter 1

### OFFICE ADMINISTRATION AND PERSONNEL MANAGEMENT

**1.1. Overview.** This chapter prescribes the responsibilities and procedures for general office administration and personnel management applicable to all AFAA directorates, divisions, regions, and area audit offices (AAOs).

**1.2. Responsibilities.** AFAA supervisors will manage personnel and general office operations in accordance with this chapter and related AFAA and Air Force guidance. Directorates may devise any additional local procedures necessary for effective and efficient office administration and personnel management.

**1.3. Host Base Support.** The Air Force provides host base support for AFAA offices in accordance with AFI 25-201, *Support Agreements Procedures*. The applicable AFAA senior official and installation officials negotiate formal host-tenant agreements only when the appropriate major command (MAJCOM) requires an agreement. Among the more common types of support received from the host base are office space, official mail delivery, message and telephone service, supplies and equipment, maintenance, disaster and emergency planning, and civilian personnel services that AFAA does not furnish. Formal agreements are completed on DD Form 1144, *Support Agreement*. HQ AFAA/DORF and HQ AFAA/DOR are the designated Comptroller and Approving Authority for all DD Forms 1144. After local review, AFAA elements will forward DD Forms 1144 to HQ AFAA/DORF. **Note:** The provision of small-scale recurring support may not always justify the administrative effort and expense of preparing a full support agreement. In such cases, the agreement approving authority may waive the need to prepare a formal agreement, but support agreement managers should still retain a written record of details to ensure continuity for the arrangement.

#### 1.4. Office Administration.

1.4.1. Office Hours. Supervisors will establish office hours in accordance with AFAA Instruction (AFAAI) 36-112, *Work Schedules*.

1.4.2. Temporary Office Closing. When an office closes for more than 24 hours due to temporary duty travel (TDY), inclement weather, office training, etc., the office supervisor must inform their management chain and all AFAA locations by telephone or e-mail and provide an emergency contact telephone number.

1.4.3. Air Force and AFAA Guidance. Guidance impacting the AFAA mission is listed in Attachment 1. AFAA policy directives, instructions, and supplements identify specific Agency requirements. The 36series AFAAIs pertain to office administration and personnel management. AFAA supervisors must know and understand this guidance.

#### 1.5. Personnel Management.

1.5.1. Personnel Authorizations and Assignments. HQ AFAA/DORC manages all auditor assignments and manpower authorizations. Although the host base civilian personnel flight services support positions (e.g., program assistants), AFAA personnel must obtain HQ AFAA/DORC authority to hire for such positions. In addition, AFAA elements will coordinate with HQ AFAA/DORC prior to requesting classification reviews of those support

positions serviced by the Air Force Personnel Center – Operating Location (AFPC/DPIDA) and local civilian personnel flights. This coordination will ensure consistent and equitable treatment of similar positions within AFAA. Send requests to HQ AFAA/DORC with a copy to the applicable region and directorate. HQ AFAA/DORC monitors each request and provides written approvals.

1.5.2. Personnel Evaluations. AFAA supervisors must complete evaluations and training progress reports on assigned personnel in accordance with established standards and time frames in AFI 36-1001, *Managing the Civilian Performance Program*, and AFI 36-401/AFAA Supplement, *Employee Training and Development*).

1.5.3. Disciplinary Actions. AFAA supervisors will initiate disciplinary actions when situations warrant. However, before taking action, supervisors should contact their applicable management chain and HQ AFAA/DORC. For additional guidance, see AFI 36-704, *Discipline and Adverse Actions*, and AFI 36-1001.

1.5.4. Counseling. AFAA supervisors must counsel assigned personnel on the following, as applicable:

1.5.4.1. Work plans for performance evaluation reports and awards and civilian progress worksheets (reference AFI 361001).

1.5.4.2. Career development (reference AFI 36-2640, *Executing Total Force Development*, and AFMAN 36-306, *Civilian Career Field Management and Development*).

1.5.4.3. Disciplinary or adverse actions (paragraph 1.5.3).

1.5.4.4. Training progress (reference AFI 36-401/AFAA Supplement).

1.5.4.5. Continuing professional education (reference AFI 36-401/AFAA Supplement).

1.5.4.6. On-the-job performance (at least semiannually, but more frequently for new auditors or other personnel experiencing job performance difficulties).

1.5.5. Project Timekeeping. All installation and CDA team members will be identified in the AFAA MIS and charge associated time to the project.

1.5.6. Awards. AFAA supervisors are responsible for preparing appropriate documentation to reward superior job performance by Agency personnel. AFAAI 36-101, *Awards and Recognition Program*, contains AFAA awards policies and procedures.

1.5.7. Designation of Acting Chief. Associate directors, region chiefs, office chiefs, program managers, and team chiefs must designate in writing an individual to act in their behalf during periods of temporary absence. **Note:** The duration associated with “temporary” is at the discretion of the directorate.

1.5.8. Travel. AFAA/DORC will advise assigned personnel on permanent change of station entitlements. AFAA supervisors will advise assigned personnel on TDY travel entitlements and voucher preparation [information is also available on the AFAA Home Community of Practice (CoP)]. Refer personnel to local travel, transportation, or finance offices for technical assistance as necessary. Also, supervisors will review and approve completed TDY vouchers to ascertain accuracy and compatibility with the related travel orders (AFI 33328/AFAA Supplement, *Administrative Orders*).



1.5.9. Dress Standards. AFAA personnel will follow AFI 36-703, *Civilian Conduct and Responsibility*, and AFAA policies.

1.5.10. Additional Duties. AFAA personnel must not perform duties that interfere with audit independence or objectivity. Reference DoD 5500.7-R, *Joint Ethics Regulation (JER)*, and AFI 36703.

## Chapter 2

### CUSTOMER RELATIONSHIPS

**2.1. Overview.** This chapter provides policies and procedures for AFAA personnel to use in managing day-to-day relations with Air Force officials and audit clients.

**2.2. Constructive Relationships.** An objective of internal auditing is to assist management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to management's duties, objectives, and missions. Accordingly, all AFAA personnel will establish and maintain constructive relationships with all levels of Air Force management. AFAA personnel will base these constructive relationships on credibility, professionalism, objectivity, and independence. These relationships enhance AFAA effectiveness and provide maximum benefits to the Air Force.

**2.3. AFAA Representative Responsibilities.** At bases with a MAJCOM, field operating agency (FOA), or direct reporting unit (DRU) headquarters, the senior audit official on base is normally responsible for acting as the AFAA representative and uses the title "AFAA Representative" when dealing with MAJCOM, FOA, or DRU-related matters. A listing of AFAA representatives is available on the AFAA Home CoP. **Note:** Throughout the remainder of this instruction, MAJCOM is used as a collective term in lieu of "MAJCOM, FOA, or DRU."

**2.4. Centrally Directed Audit Division Responsibilities.**

2.4.1. Associate Directors. Meetings and discussions with HQ USAF officials provide senior Air Force and AFAA officials the opportunity to discuss issues of mutual concern. Each associate director will periodically discuss audit issues and plans with the HQ USAF elements accountable for areas the associate director is assigned audit responsibility. The associate director will normally hold these discussions during regularly scheduled trips to the Pentagon. Based on work and travel schedules, the associate director may delegate this responsibility to a program manager.

2.4.2. Audit Managers and Program Managers. Audit managers and program managers will establish contacts with applicable HQ USAF and MAJCOM officials during the audit planning phase and maintain such contacts throughout the audit cycle. AFAA also encourages frequent contact with management offices of primary and collateral responsibility (OPR/OCR) at all levels concerning audit results to assure the audit manager is aware of potential nonconcurrences, or other new information, as early in the project as possible. Prepare a memorandum of each contact with HQ USAF or MAJCOM personnel for inclusion in the working papers. Audit managers and program managers will:

2.4.2.1. Notify the responsible AAO/team first before contacting HQ USAF and MAJCOM elements for which another AFAA office has audit responsibility.

2.4.2.2. Obtain Assistant Auditor General approval before meeting with Office of the Secretary of Defense (OSD) officials to discuss questions concerning DoD policies and procedures.

2.4.3. Discussing Audit Results. Audit managers must fully discuss audit results with HQ USAF and MAJCOM operating personnel before providing results to SAF/AGA for

release to management. This procedure applies whether issuing preliminary reports or draft reports.

2.4.4. Meetings with General Officers and Civilian Equivalents. Directorates will include contacts with general officer or civilian equivalent personnel at the MAJCOMs, Air Staff, or Secretariat in the Weekly Status Update provided to the Auditor General.

2.4.5. Federal Managers' Financial Integrity Act (FMFIA) Audit Assessments. The AFAA is required to provide the Secretary of the Air Force with audit input to consider in preparing the annual FMFIA Statement of Assurance. AFAA/FSC is responsible for implementing the Agency's role in this process.

## **2.5. Area Audit Office Responsibilities.**

2.5.1. Communications. Office chiefs and team chiefs will meet periodically (a minimum of annually) with management officials to gain new perspectives on the Air Force and to discuss specific initiatives that pertain to the auditee.

2.5.2. Staff Meetings. Office chiefs and team chiefs will attend the host unit senior commander's staff meeting whenever possible. Audit comments at staff meetings must remain advisory in nature. Avoid any participation that could impair audit independence.

**2.6. Customer Survey Process.** At the completion of each audit project, the Assistant Auditor General (for CDAs) or the AAO chief (for installation-level audits) will provide the AFAA Audit Process Effectiveness Survey to selected management officials familiar with the project. The survey solicits management's opinion on the value of the audit, professionalism of the audit staff, timeliness of audit results, and effectiveness of communication. Questionnaire templates are on the AFAA Home CoP. For additional information on the customer survey process, reference AFAAI 65-101, *Installation-Level Audit Procedures*, Chapter 5, or AFAAI 65-102, *Centrally Directed Audits*, Chapter 5.

## Chapter 3

### RELATIONS WITH EXTERNAL ORGANIZATIONS

**3.1. Overview.** This chapter provides guidance for conducting relations with external audit and inspection activities, including the Air Force Office of Special Investigations (AFOSI); Air Force and MAJCOM inspectors general; Army Audit Agency and Naval Audit Service; Defense Contract Audit Agency (DCAA); Office of the Inspector General, Department of Defense (DoD OIG); and the Government Accountability Office (GAO). **Note:** The *Quick Reference Guide for Auditing within Air National Guard Units* is located on the AFAA Home CoP and provides information on applying audits at ANG units.

**3.2. Audits Involving Non-Air Force Activities.** When auditors discover they need to obtain information from or issue reports to non-Air Force activities, they must first contact HQ AFAA/DOO, through their chain of command, to obtain assistance. If appropriate, HQ AFAA/DOO will coordinate with the Department of Defense Office of the Deputy Inspector General for Auditing (ODIG-AUD) to arrange access to non-Air Force activity personnel and records or process the report. This coordination could take up to 30 days, so advanced planning is extremely important.

3.2.1. Obtaining Information from Non-Air Force Activities. If the objective is to obtain information, HQ AFAA/DOO will work with the ODIG-AUD to arrange access. AFAA personnel should not attempt to contact ODIG-AUD personnel directly. At a minimum, the ODIG-AUD will require a copy of the announcement memorandum and a memorandum requesting access that identifies the auditor's requirements and explains how they relate to the audit's objectives. There must be no intent to evaluate the non-Air Force activity or to develop findings and recommendations related to the non-Air Force activity's operations. The ODIG-AUD will decide whether to obtain the information or to arrange direct access for the AFAA auditor.

3.2.2. Issuing Reports to Non-Air Force Activities. AFAA auditors will not initiate audits to evaluate the operations of non-Air Force activities. If it becomes apparent during the audit of an Air Force activity that it will be necessary to issue a report to a non-Air Force activity, the AFAA auditor will immediately contact HQ AFAA/DOO, through their chain of command, for assistance. HQ AFAA/DOO will coordinate with ODIG-AUD and, if appropriate, the ODIG-AUD will staff the report with the non-Air Force activity.

**3.3. Air Force Office of Special Investigations.** The AFAA and AFOSI maintain close coordination on fraud issues requiring audit assistance or investigations. AFOSI detachment commanders request audit assistance from team chiefs. Conversely, team chiefs refer all fraud indications or instances of other irregular and illegal acts disclosed by audit to local AFOSI officials.

3.3.1. Meetings. Installation auditors will contact local AFOSI officials at the beginning of each audit. Auditors will determine if there were any recent fraud occurrences in the functional area they are auditing, potential trends in the area, and any other information that may help focus the audit on fraud risk areas. Team chiefs will meet with local AFOSI officials to present the overall audit plan and solicit areas AFAA should target for fraud concerns in accordance with AFAAI 65-101, Chapter 1. Where possible, team chiefs will

also exchange fraud indicator data with local AFOSI officials. **Note:** When an AM applies an audit, request the applicable AAO/team coordinate the effort with local OSI officials.

3.3.2. AFOSI Referrals. Team chiefs will promptly notify the local AFOSI detachment commander of all information found during an audit that suggests a reasonable basis for suspicion of fraud (material irregularities or illegal acts). In cases of suspected fraud, the team chief will complete an AFOSI Referral and submit it to the AFOSI detachment commander (with copies to the office chief, region, directorate, and HQ AFAA/DOO). Use the AFOSI Referral template located on the AFAA Home CoP.

3.3.2.1. The referral form contains information AFOSI requires to open an investigation. The audit team may not be able to supply all the information, but be as thorough as possible to assist the investigator's understanding of the potential irregularity.

3.3.2.2. HQ AFAA/DOO will assign a referral number to the issue and track the referral until all appropriate actions are taken and the case is closed. Submit an AFOSI Referral for all cases of suspected fraud, regardless of whether AFOSI officials indicate they will open an investigation.

3.3.3. CDA Division AFOSI Referrals. Most referrals will be handled at installation-level offices. If audit managers find a potential fraud issue not specifically related to installation-level activities, they will contact HQ AFAA/DOO for assistance.

3.3.4. AFOSI Requests for Audit Support. If the local AFOSI detachment commander requests AFAA assistance for an ongoing investigation, make every effort to support the request.

3.3.4.1. The AAO chief and team chief will determine if the office has the audit cognizance, expertise, and resources to support the AFOSI request. If for any reason the office cannot support the AFOSI request, the AAO chief will contact the region chief to arrange support. Region chiefs will determine if the requested support is appropriate and can be provided through other means.

3.3.4.2. The AAO chief or team chief will promptly notify the AFOSI detachment commander in writing (copies to region, directorate, and HQ AFAA/DOO) whether requested audit support can or cannot be provided. If the AAO can support the AFOSI, the team chief will provide HQ AFAA/DOO with the AFOSI case number, AFAA project number, auditor name, potential value of the case, and estimated completion date. If the AAO cannot support the AFOSI, the reply memorandum should provide clear supporting rationale.

3.3.5. Reporting. Auditors may jeopardize an AFOSI investigation if they prematurely brief unit officials on audit results. As a result, the team chief will consult with the AFOSI detachment commander before briefing management on results from audits supporting AFOSI investigations. The team chief may, with AFOSI concurrence, issue an interim audit report or a notice of preliminary findings to the audited unit. However, the interim report will not address findings related to the ongoing investigation. A comprehensive audit report will follow when all audit field work is completed and the investigation is closed.

3.3.6. Disagreements Between AFAA and AFOSI. The team chief and AFOSI detachment commander may disagree on matters such as whether the AFOSI should open a case on an

AFAA referral, whether AFAA should support an investigation, and when release of an AFAA report will jeopardize an investigation. When disagreements occur, the team chief will immediately notify HQ AFAA/DOO (through the office and region chiefs) and state the reasons for disagreement. HQ AFAA/DOO will coordinate, if necessary, with HQ AFOSI to resolve the disagreement.

3.3.7. Tracking AFAA Referrals and AFOSI Requests. Due to the high-level emphasis on fraud, HQ AFAA/DOO will periodically ask for information on AFAA referrals and AFOSI requests. The primary purpose is to update the AFOSI Request/Referral database to ensure the data are complete and accurate. A case is not considered closed until prosecution of offenders is completed or the case is otherwise closed. A case may remain open for several years. When requested to do so, team chiefs will determine the status of AFOSI and prosecution actions and report the status to HQ AFAA/DOO.

**3.4. Air Force and MAJCOM Inspectors General.** The inspection functions of the Air Force Inspector General (SAF/IG), together with those of the MAJCOM IGs, constitute the Air Force inspection system. Air Force Policy Directive (AFPD) 902, *Inspector General - The Inspection System*, contains policies for Air Force-wide Inspector General activities. DoDI 7600.02 requires audit and inspection organizations to exchange information so the Services can avoid unnecessary duplication of audit and inspection activities. AFI 90-201, *Inspector General Activities*, contains Air Force procedures concerning such exchanges. HQ AFAA/DOO:

3.4.1. Serves as the focal point for contacts with SAF/IG to assure audit efforts are complementary and not duplicative. HQ AFAA/DOO also monitors contacts concerning audit planning and scheduling between SAF/IG and AFAA offices, directorates, and regions.

3.4.2. Notifies SAF/IG of future audits by providing them a copy of the annual AFAA Fiscal Year Audit Plan and copies of all CDA announcement memorandums.

**3.5. Auditing in a Joint Basing Environment.** Joint basing consolidates two or more installations of different military services into one base. The Base Realignment and Closure (BRAC) Commission of 2005 designated a military service to lead each joint base and provide support services. At each joint base, the designated lead service (i.e., Supporting Component) has responsibility for managing and providing services to other military organizations (i.e., Supported Component). The military lead service commander will serve as Joint Base Commander and is responsible for providing installation support such as facilities, services, housing, and environmental. The Supported Component commander serves as the Deputy Joint Base Commander. The base commander and deputy base commander have assigned personnel to provide installation support. However, “mission” unique functions remain under the command and control of their military service.

3.5.1. AFAA personnel will not perform installation support-related audits of organizations under Joint Base Wings where the Air Force is not the military lead service. Since AFAA has primary audit responsibility for Air Force entities, only AFAA auditors will provide internal audit services of installation support to Joint Base Wings where the Air Force is the military lead service. Other service audit agencies may perform internal audits of installation support where the Air Force is the supported component and another service is the military lead service. Each military service internal audit organization may perform service-unique mission audits for its military service.

### 3.5.2. Responsibilities.

3.5.2.1. Office chiefs/team chiefs at joint bases where the Air Force is the lead military service should meet with Joint Base Wing officials to:

3.5.2.1.1. Obtain an understanding of Joint Base Wing responsibilities and procedures.

3.5.2.1.2. Identify Joint Base Wing audit focal point(s).

3.5.2.1.3. Establish audit processes for announcement memos, in-briefs/out-briefs, management comments, and report processing to ensure compliance with AFAA guidance.

3.5.2.1.4. Obtain periodic updates on Joint Base Wing activities and changes.

3.5.2.2. Office chiefs/team chiefs should coordinate with organizations with Air Force-unique missions that remain under Air Force command and control, and other Air Force organizations that are not under the Joint Base Wing structure to establish audit focal points.

### 3.5.3. Updating AFAA MIS.

3.5.3.1. HQ AFAA/DOO should obtain documentation such as Special Orders of Joint Base Wing activation and establish AFAA MIS Audit Location codes. Special Orders show unit activations and deactivations as a result of BRAC. Likewise, HQ AFAA/DOO should deactivate codes for locations where AFAA no longer provides audit coverage.

3.5.3.2. Office chiefs/team chiefs should periodically coordinate with joint base officials to obtain other relevant documents and provide applicable information to HQ AFAA/DOO to help ensure AFAA MIS Audit Location codes are accurate.

3.5.3.3. Office chiefs will coordinate with joint base officials to determine the location naming protocol. Office chiefs will coordinate with HQ AFAA/DOO to ensure the location naming protocol is correctly identified in the AFAA MIS.

3.5.4. Report Naming Conventions. Office chiefs will coordinate with joint base officials to determine the location naming protocol as a result of joint basing when performing audits of “mission” or other Air Force organizations not part of the Joint Base Wing, and use the appropriate location title for the local report cover. The following examples provide help to ensure consistency with the report naming convention on the cover of local reports:

3.5.4.1. If a Joint Base Wing was established, the location was not renamed, and the audited entity is a “mission” organization or other Air Force unit that is not part of the Joint Base Wing, the location on the report should reflect the applicable Air Force base name:

<p style="text-align: center;"><b>Aircraft Maintenance</b> <b>12th Flying Training Wing</b> <b>Randolph AFB TX</b></p>
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3.5.4.2. If a Joint Base Wing was established, the location was renamed, and the audited entity is a “mission” organization or other Air Force unit that is not part of the Joint Base Wing, the location on the report should reflect the applicable joint base name:

**Aircraft Maintenance  
13th Wing  
Joint Base Andrews Naval Air Facility  
Washington MD**

3.5.4.3. If the audited entity is a part of the Joint Base Wing and the audit is performed at more than one site/location within the Joint Base Wing:

**Child Development Centers  
502d Air Base Wing  
Joint Base San Antonio TX**

3.5.4.4. If the audited entity is a part of the Joint Base Wing, and the audit is performed at a single site/location in the Joint Base Wing:

**Child Development Center  
502d Air Base Wing  
502d Mission Support Group  
Ft Sam Houston  
Joint Base San Antonio TX**

### 3.5.5. Conducting CDAs at Joint Bases.

3.5.5.1. Audit managers should contact responsible office chiefs/team chiefs at joint bases during planning and site selection to ensure the audited function is managed by the Air Force. The organizational structure is not standard for all Joint Base Wings. For example, at Joint Base McGuire-Dix-Lakehurst, the Air Force manages the lodging functions for both McGuire and Ft Dix personnel. However, Lakehurst (Navy) continues to operate separately for reservations. Consequently, it is important to contact the office chief/team chief to determine the structure and responsibilities at joint basing locations.

3.5.5.2. CDA sample and site selections will not include an operation that is part of a Joint Base Wing where the Air Force is not the lead. CDA sample and site selections should only include functions and missions where the Air Force is the lead component or the Air Force retains control of the “mission” unique function.

**3.6. Army Audit Agency and Naval Audit Service.** DoD internal audit organizations may perform complete or assist audits for one another whenever economy, efficiency, or more effective audit coverage will result. The audit organizations may request assist audits where coverage of policies, procedures, or practices involves two or more DoD components or departments. Auditors should coordinate with HQ AFAA/DOO before contacting Army Audit Agency or Naval Audit Service.



**3.7. Defense Contract Audit Agency.** The DCAA performs contract auditing for the DoD and provides advisory services to DoD components responsible for procurement and contract administration. These services are in connection with contract negotiation, administration, and settlement. In addition, DCAA provides assist audits for DoD internal audit organizations and, when appropriate, provides contract audit services to other government agencies. AFAA personnel adhere to DoD policies governing relations between DCAA and the military departments as stated in DoDD 7600.2.

3.7.1. Audits Involving Contracted Activities. All contracted Air Force activities (supply, maintenance, etc.) are subject to surveillance by the administrative contracting officer (ACO), procurement officials, and other Air Force activities. The AFAA is responsible for auditing the records of these Air Force functions, and may do so without prior DCAA coordination. When auditing these Air Force functions, AFAA may directly evaluate a contractor's performance even though evaluation of the ACO is the primary audit objective. However, AFAA has no authority or responsibility to issue direct recommendations to the contractor. AFAA personnel will issue any report to the ACO and, in discussions and reports, avoid any implications that reviewing the contractor is the audit objective.

3.7.2. Gaining Access to Contractor Records. AFAA personnel may use records maintained by the ACO. When auditors require access to contractor records, they will request audit assistance from Defense Contract Management Agency (DCMA) through HQ AFAA/DOO. HQ AFAA/DOO will coordinate through DoD OIG.

3.7.3. Requests for Audit. AFAA personnel advise contracting officers and others requesting audits of contractor proposals, claims, etc. (that would require access to contractor books and records) to forward their request directly to the appropriate DCAA regional office.

3.7.4. DCAA-Requested Assist Audits. AFAA personnel receiving a request directly from DCAA for audit assistance will refer the request to HQ AFAA/DOO.

**3.8. Department of Defense Inspector General.** The DoD OIG is an independent organization that reports directly to the Secretary of Defense. The DoD OIG conducts audits and investigations of DoD programs and operations to promote economy, efficiency, and effectiveness and to detect fraud and abuse. The DoD OIG organization and relationship with the Air Force are described in AFI 65-402, *Relations With the Department of Defense, Office of the Assistant Inspector Generals for Auditing, and Analysis and Follow Up*; DoDD 5106.01, *Inspector General of the Department of Defense*; DoDI 7600.02; and DoD 7600.07-M, *DoD Audit Manual*.

3.8.1. Requests from DoD OIG. The DoD OIG occasionally requests audit assistance from a CDA division or conducts joint audits with a CDA division. The CDA division involved will provide information copies of the audit requests and joint audit plans to HQ AFAA/DOO. SAF/AG must approve all DoD OIG requests for audit assistance.

3.8.2. Requests to DoD OIG. All AFAA personnel requiring DoD OIG audit assistance must submit a written request through their management chain to HQ AFAA/DOO. Indicate the specific information or assistance needed and why it is needed, and estimate the time required to perform the assist work.

3.8.3. Interservice and DoD-Wide Audits. The ODIG-AUD has responsibility for performing interservice audits and acting as project manager for DoD-wide audits. An

AFAA CDA division manages the Air Force portion of such DoD-wide projects as a CDA. Follow the procedures provided below when transmitting the results of interservice audits to ODIG-AUD.

3.8.3.1. Air Force-Level Reports of Audit. Final audit reports provided to ODIG-AUD require no special procedures. Include management comments in these reports.

3.8.3.2. Draft Air Force-Level Reports of Audit. When ODIG-AUD requires the draft audit report prior to receiving management comments, the audit manager will take the following actions:

3.8.3.2.1. Validation Discussions. During validation discussions, inform the management OPR and OCRs that AFAA will provide the draft report to ODIG-AUD prior to formal coordination and comments. Fully discuss significant or sensitive areas and fairly present management views in the draft report.

3.8.3.2.2. Management Comments. The audit manager and program manager will review management comments and decide if the draft report needs revision and if ODIG-AUD should receive management comments along with the draft report. Coordinate the package of draft report, management comments, and the report transmittal memorandum with HQ AFAA/DOO prior to release to ODIG-AUD.

3.8.3.3. Working Papers. When ODIG-AUD requires working paper summaries, schedules, response sheets, or similar items, either in lieu of or in addition to an issued report or a report released to management, the audit manager and program manager will provide the working papers. However, prior to release, verify the working papers are properly prepared, indexed, cross-indexed, and reviewed. Also verify that, if the working papers contain findings not covered in the issued final report or draft report released to management, the findings are either reported in installation-level reports or the working papers contain appropriate rationale why the findings were not reported. If the ODIG-AUD requests working papers before the draft report is released for management comments, the CDA OPR will contact HQ AFAA/DOO for further guidance. Normally, AFAA does not release audit working papers at this early stage.

### **3.9. Congress and the Government Accountability Office.**

3.9.1. Relations with Congress. AFI 90-401, *Air Force Relations with Congress*, contains Air Force procedures for relations with Congress and reporting requirements. Requests for AFAA audit information or for contact with AFAA personnel usually originate with congressional committee staff members, members of Congress, or through intermediaries, such as the OSD or the House Appropriation Committee Surveys and Investigations staff. Only the Secretary of the Air Force can deny requests for information from these sources.

3.9.2. Relations with GAO. AFI 65-401, *Relations with the Government Accounting Office*, contains Air Force procedures for relations with GAO. In addition to prescribing auditing and accounting standards, GAO provides special assistance to Congress, including audits, surveys, and special investigations that a congressional committee, subcommittee, or a member of Congress requests.

3.9.2.1. AAO Responsibilities:

3.9.2.1.1. Coordinates with the installation audit focal point to provide notification when GAO personnel visit the installation or audit installation activities. Attend GAO entrance and exit briefings on subjects of internal audit interest. Be responsive and cooperative when GAO personnel make contact. Determine the purpose of the GAO visit and confine discussions to that subject.

3.9.2.1.2. Within 3 workdays after completion of a GAO visit or audit, submits a report to HQ AFAA/DOO if GAO identifies conditions which are prejudicial to Air Force interests, require HQ AFAA/DO action, are of immediate importance, or include potential audit issues at other Air Force installations. Send copies to the directorate, region, and AFAA representative. An e-mail submission is sufficient to satisfy this requirement. Include the following information:

3.9.2.1.2.1. Subject: Report of GAO activity.

3.9.2.1.2.2. Location and activity reviewed.

3.9.2.1.2.3. GAO audit announcement number.

3.9.2.1.2.4. Visit purpose (scope).

3.9.2.1.2.5. Audit dates.

3.9.2.1.2.6. GAO personnel names.

3.9.2.1.2.7. The results of GAO contacts with the AFAA activity (include dates, subjects discussed, and records requested or furnished).

3.9.2.1.2.8. Findings or remarks, when applicable (a resume of reportable GAO findings or an explanatory statement of other GAO findings).

### 3.9.2.2. AFAA Representative Responsibilities:

3.9.2.2.1. Coordinates with the MAJCOM audit focal point to provide notification of GAO audits scheduled within the command and attend GAO entrance and exit briefings on subjects of internal audit interest.

3.9.2.2.2. Advises HQ AFAA/DOO upon learning of any GAO activity that is of immediate interest or which may require HQ AFAA action. Use the format specified in paragraph [3.9.2.1.2](#) However, do not report information that AAOs previously submitted.

### 3.9.2.3. AFAA CDA Directorate Responsibilities:

3.9.2.3.1. Review GAO audit announcements and reports to determine the effect on existing or planned audits.

3.9.2.3.2. Notify HQ AFAA/DOO when GAO activities affect planned audit coverage and coordinate with the GAO to preclude duplicate audit coverage to the extent possible.

### 3.9.2.4. HQ AFAA/DOO Responsibilities:

3.9.2.4.1. Serves as the AFAA OPR for receiving, reviewing, and evaluating GAO reports and audit announcements.

3.9.2.4.2. Distributes GAO audit announcements and reports to applicable directorates and maintains a file copy of all GAO reports received.

3.9.2.4.3. Notifies the directorate with functional responsibility when classified GAO reports are received.

3.9.2.4.4. Advises the Auditor General of significant issues resulting from GAO activities, and prepares any AFAA replies required for GAO reports.

3.9.2.4.5. Provides AFAA products (audit reports, working papers, etc.) to GAO, as appropriate, upon request.

**3.10. Disposition Services Activities.** DoDD 5106.01 assigns DoD OIG primary audit responsibility for the Defense Logistics Agency (DLA), which includes the DLA Disposition Services activities. DLA and the military departments have developed formal procedures for audit evaluations or information-gathering activities. When auditors require audit evaluation work from DLA Disposition Services, contact HQ AFAA/DOO to begin the coordination process. HQ AFAA/DOO will provide a written request for access to both the Internal Review Division, Office of the DLA Comptroller; and the DoD OIG. Copies of these requests will be forwarded to the office requesting access. HQ AFAA/DOO will contact the office requesting access when such access is granted. Allow at least 2 weeks for the coordination process.

**3.11. Other Organizations.** DoDI 7600.02 encourages coordination and cooperation among military departments, the internal audit organizations, and other federal agencies. AFAA performs assist audits for other federal agencies upon request when it will not unduly interfere with the performance of the AFAA audit mission. **Note:** The coordination flow noted below is dependent on the level at which the request was received.

3.11.1. AAO Chiefs:

3.11.1.1. Perform request audits directed by the region chief. Advise the region chief when requests significantly affect AAO workload.

3.11.1.2. Forward all audit requests to the region chief. Advise the requesting agency that the request was forwarded through appropriate channels for consideration.

3.11.1.3. Identify areas where request audits are required from other government organizations and advise the region chief of the audit need.

3.11.2. Region Chiefs:

3.11.2.1. Forward all audit requests to the directorate for approval.

3.11.2.2. Direct applicable AAOs to perform approved request audits.

3.11.2.3. Monitor request audits that AAOs perform and advise HQ AFAA/DOO if request audits significantly affect AAO workload.

3.11.3. AFAA CDA Directorates:

3.11.3.1. Coordinate all audit requests with the applicable division (division having functional oversight) before sending to HQ AFAA/DOO for approval.

3.11.3.2. Direct the applicable division to perform approved request audits.

3.11.3.3. Monitor request audits that divisions perform and advise HQ AFAA/DOO if request audits significantly affect division workload.

3.11.4. HQ AFAA/DO. Serves as the OPR for contacts with other government organizations. When such contacts involve requests for audits by or for the AFAA, HQ AFAA/DOO will:

3.11.4.1. Coordinate, as necessary, with the applicable AFAA directorate and other government organizations to identify potential audit and inspection duplication and overlap.

3.11.4.2. When approved, request the appropriate government organization to perform the audit.

3.11.4.3. Maintain cognizance of assist audits performed by or for the AFAA.

## Chapter 4

### CENTRALLY DIRECTED AUDIT RELATIONSHIPS AND RESPONSIBILITIES

**4.1. Overview.** A CDA is a single- or multisite audit intended to produce an Air Force-level report of audit. CDAs are the AFAA's principal means of assessing activities that represent significant Air Force investment, have substantial impact on Air Force operational capabilities, and are of current interest to Air Force managers. This chapter provides guidance for AAOs conducting CDAs and assisting CDA divisions.

#### **4.2. Centrally Directed Audit Responsibilities for Area Audit Offices.**

4.2.1. AAO Responsibilities. As the first line supervisor, team chiefs must:

4.2.1.1. Place emphasis on quality products and timely completion within budgeted time. **Note:** CDAs normally take precedence over locally scheduled audits except for audits requiring special consideration.

4.2.1.2. Ensure the auditor accomplishes the audit in accordance with government auditing standards and AFAA audit policies and procedures and the CDA program (CDAP) instructions.

4.2.1.3. Review the CDAP as soon as possible after receipt and periodically during application, comparing authorized time frames and resources with audit objectives and program requirements. If changes would improve the audit, contact the audit manager immediately.

4.2.1.4. Advise the audit manager if the office will exceed the time approved for the audit by up to 20 percent of the allotted staff hours (while still meeting the established milestones). However, if the team chief expects the auditor will exceed the time approved for the audit by more than 20 percent, or the results will not be submitted by the due date, the team chief must submit a status report to the audit manager and request an extension. Submit the status report as soon as possible, and explain the need for additional time or why the auditor cannot meet the due date. The audit manager, in coordination with the program manager, must determine whether to adjust the planned staff hours/event dates or terminate the AAO's participation before completing the CDAP.

4.2.1.5. When necessary, contact the audit manager if they: (a) have technical questions or are concerned they cannot apply the audit in the activity scheduled for review; (b) identify significant audit findings the audit program may not uncover; or (c) identify major problems that require management actions at higher headquarters or warrant interim reporting.

4.2.1.6. Review the completed CDAP Response Sheets and supporting schedules to verify the information completely and accurately answers each CDAP audit step.

4.2.1.7. When submitting CDAP Response Sheet data and supporting schedules to the audit manager, include a statement certifying the submitted information was independently referenced to supporting working papers (see paragraph [4.2.2.5](#)).

4.2.1.8. Outbrief and issue an installation-level report at the conclusion of each CDA application, except for fact-gathering efforts of 80 audit hours or less. The AAO will coordinate the installation-level report with the audit manager before outbriefing the report, and retain a copy of the coordination document in the working paper files. Elevate disagreements on issuing installation-level reports not resolvable by the AAO and audit/program manager to the region chief for resolution. Forward conditions not locally correctable to the audit manager for evaluation and appropriate action.

4.2.1.9. Ensure the draft report is independently referenced before issuing the report for comment (see AFAAI 65-101, Chapter 4.). When submitting the draft report to the audit manager for coordination, include a statement certifying the draft report and summary of audit results (SAR) statement were independently referenced to supporting working papers (see paragraph 4.2.2.5).

4.2.1.10. Forward copies of the Air Force-level draft report to local management officials, and inform them of any applicable findings and recommendations. Advise unit officials that if they wish to provide comments to the Air Force-level report, they must contact the MAJCOM subject matter OPR and audit focal point.

4.2.2. Information Required From Application Sites. Upon completing the required audit work, electronically transmit the following items to the audit manager.

4.2.2.1. Installation-level draft report of audit.

4.2.2.2. CDAP Response Sheet data, completed schedules, and other products requested by the CDAP using the standard format specified by the audit manager.

4.2.2.3. SAR statement.

4.2.2.4. Additional Results Memorandum, if applicable (reference AFAAI 65-101, Chapter 4).

4.2.2.5. Confirmations (e-mails) that CDAP Response Sheet data, schedules, draft report, and SAR statement were independently referenced (see AFAAI 65-101, Chapters 3 and 4). **Note:** The AAO team and the audit manager will retain copies of the confirmation notices in their working paper files. The AAO working paper files must fully support data submitted to the audit manager since this data are the primary support for the audit manager's summary working papers and, ultimately, the report of audit.

4.2.3. Other CDA Procedures.

4.2.3.1. Evaluation of Management Procedures. When procedures prescribed in Air Force directives differ from those used locally, evaluate the local procedures to determine whether they are acceptable and provide adequate control. If the local procedures are not effective or are contrary to higher echelon directives, determine whether the MAJCOM or HQ USAF approved the procedures. On a CDAP Response Sheet, identify the applicable CDAP paragraph and provide a brief explanation of procedures in effect, the command level that authorized the procedures, and the command directive reference. If any portion of the CDAP is not consistent with local procedures, devise appropriate audit steps to attain the stated audit objectives and notify the audit manager.

4.2.3.2. Adequate Audit Coverage. Team chiefs and auditors must continually assess the extent and productivity of audit coverage. Except for CDAP steps with specified sample sizes, terminate audit work when findings are sufficient to identify significant problems and support reasonable conclusions with respect to their causes and seriousness. Team chiefs will contact the audit manager for guidance on continuing the audit when the auditor believes: (a) sufficient support for exceptions and recommendations exists prior to completing pertinent portions of the CDAP, or (b) further audit effort is unnecessary to achieve the desired objectives.

4.2.4. Special Installation-Level Reporting Procedures. During CDAP application, advise the audit manager of significant findings that require immediate attention (reference AFAAI 65-101, Chapter 4). Brief the unit commander immediately if such findings develop and, if appropriate, contact the AFAA representative to have MAJCOM functional personnel briefed. Inform all briefed parties that AFAA may include the findings in an interim report.

4.2.5. Local Distribution of Draft Air Force-Level Reports. Audit managers distribute draft reports electronically to applying AAOs and AFAA representatives for affected nonOPR/OCR MAJCOMs. The transmittal e-mail contains instructions for distributing the draft report. HQ AFAA/DOO distributes copies of final Air Force-level reports to applicable AAOs and AFAA representatives. Reference AFAAI 65-102, Chapters 4 and 5.



## Chapter 5

### ADMINISTRATIVE CONTROL OF WORKING PAPERS AND REPORTS

**5.1. Overview.** This chapter provides guidance for managing classified, “For Official Use Only,” and *Privacy Act* information. In addition, this chapter provides guidance for labeling and storing electronic working papers, including working papers documenting work accomplished on fraud-related audits.

**5.2. Classified Information.** AFAA personnel involved in any manner with classified data will familiarize themselves with the provisions of DoD 5200.1R, *Information Security Program*; AFI 31401, *Information Security Program Management*; AFI 33200, *Information Assurance (IA) Management*; and AFI 33201, Volume 2, *Communications Security (COMSEC) User Requirements*. HQ AFAA/DORI is the AFAA focal point for security clearances, security procedures, and transmitting and storing classified data.

5.2.1. Processing Classified Information. Prepare and protect working papers containing classified information in accordance with AFI 31-401 and DoD 5200.1-R. When working on classified working papers, follow the specific guidance listed below:

5.2.1.1. Safeguarding and Storage. Safeguarding and storage procedures are contained in DoD 5200.1-R, Chapter 6, and AFI 31-401, Chapter 5. **Note:** Security procedures require that classified and unclassified data be segregated and filed separately. Unclassified data can become classified when combined with other classified or unclassified data. When it is necessary to file unclassified data with classified data, appropriately label and properly safeguard both.

5.2.1.2. Reproduction. Reference DoD 5200.1R, Chapter 6.

5.2.1.3. Derivative Classification. Reference DoD 5200.1R, Chapter 3. Auditors can also refer to the Air Force’s Security Classification Guidance for the subject matter in question.

5.2.1.4. Markings on Documents. Classified material is extremely sensitive, so consult DoD 5200.1R, Chapter 5, and AFI 31-401, Chapter 4.

5.2.2. Transmission and Transportation. Follow procedures prescribed in AFI 31401, Chapter 6, and DoD 5200.1-R, Chapter 7.

5.2.2.1. Transmitting Classified Information Electronically. Do not transmit classified information by any computerized or word processing system or facsimile (fax) machine. If the audit team must transmit classified information electronically, contact HQ AFAA/DORI for instructions.

5.2.2.2. Transporting Classified Information. Whenever possible, auditors will mail rather than hand-carry classified information. When mailing classified information, follow the guidance in DoD 5200.1-R, Chapter 7. When absolutely necessary to hand-carry classified information, the security manager must designate the auditor as an official courier to transport classified information. Appropriately cleared individuals who are authorized to hand-carry classified material will comply with the procedures in AFI 31-401, Chapter 6, and DoD 5200.1-R, Chapter 7.

- 5.2.2.2.1. Within Continental United States (CONUS). The courier must verify the availability of adequate storage facilities at intermediate points (e.g., TDY locations). The orders issuing and approving authorities must approve memorandums authorizing personnel to hand-carry classified material.
- 5.2.2.2.2. Outside CONUS. The Auditor General must authorize hand-carrying classified material outside the CONUS. Proof of authorization requires a written note and a statement in the TDY orders.
- 5.2.3. Discussing Classified on the Telephone. Do not discuss classified information over commercial or standard DSN telephone lines. When events necessitate discussing classified information over telephone lines, auditors will make arrangements to use secure telephones. Refer to DoD 5200.1-R, Chapter 7.
- 5.2.4. Processing Classified Information Electronically. Process classified audit data as follows:
- 5.2.4.1. Auditors may only process classified information on computers certified and accredited by the local Information Assurance office and within areas approved for processing classified information. Under no circumstances will an auditor process classified information on a computer that has not been certified and accredited for that purpose. **Note:** When processing classified data on an approved system at an application site, the area at the application site must be approved for that purpose.
- 5.2.4.2. Safeguard all storage media (removable hard disks or the entire microcomputer) in an approved safe. Treat the computer and data exactly like hard copy classified data.
- 5.2.4.3. Do not connect a computer used to process classified information to a modem or local area network. Connect printers directly to a computer when it is necessary to print classified documents. **Note:** For some printers, simply turning the printer off will clear the classified information from the printer's memory. However, this is not true for all printers. Contact the local Information Assurance office for advice on the appropriate security procedures for printers.
- 5.2.5. Marking Classified Working Papers. When including classified information in working papers, mark the working papers with the same classification level and downgrading instructions as the material from which the information was extracted. Additionally, mark the working paper folders (manual) or file name (electronic) with the highest security level contained in the document(s). Classified material is extremely sensitive, so consult DoD 5200.1-R, Chapter 5, and AFI 31-401, Chapter 4, for specific guidance related to marking classified material.
- 5.2.6. Processing Classified Reports.
- 5.2.6.1. Initial Classification. When an audit involves classified material, mark the proper classification on the subject element and each paragraph of the draft report of audit. When initially prepared, the draft report will normally carry the same classification as the source documents providing the classified data. The overall classification of the report will always be the same as the highest classification assigned to any one part of the report. Make every effort to keep the subject element of the report unclassified.

5.2.6.2. Formal Classification Review. After the Assistant Auditor General (Air Force-level reports) or the office chief (installation-level reports) approves the draft report for release, forward a copy of the report to the management OPR for a formal classification review. If the audit involved more than one organization, send the report to each organization for classification of the applicable paragraphs. Request the management OPR review and either approve or change the initial classification markings, as appropriate. The transmittal memorandum will indicate the temporary classification of the report and emphasize the report is forwarded for classification purposes only at this time.

5.2.6.2.1. The audit manager must approve each installation-level report containing classified information before the audit team forwards the report to management for a formal classification review.

5.2.6.2.2. Audit teams will request a formal classification review for all audit projects that involve reviewing and processing classified or operational readiness information, even if the initial classification review indicates the report is unclassified. Although individual elements of a report may be unclassified, information can become classified by putting two or more unclassified elements together.

5.2.6.3. Processing After Classification Review. Upon receipt of the management OPR written response to the classification review, change the security classification of the draft report as necessary and release the report for comment using normal procedures. Also, if the classification review resulted in changes, mark the individual supporting working papers with the appropriate classification.

5.2.6.4. Final Report. If the final report contains material changes from the draft report, or the management comments and evaluation of management comments require classification, process the final report back through the management OPR for a formal classification review. After receipt of the management OPR reply, change the classification of the report as required and issue the final report using normal procedures.

5.2.6.5. Tracking Summaries. For CDAs with classified reports of audit, the audit manager will prepare an unclassified tracking summary. For example, indicate the finding paragraph number and state “finding classified, see report” in the synopsis section, but do not include a synopsis of the finding.

5.2.7. Disposition of Classified Documents. Safeguard classified information until declassified or destroyed. Refer to DoD 5200.1R, Chapter 4, for specific procedures on declassifying and destroying classified documents. Retain classified working papers for the same length of time as unclassified working papers. Refer to the Air Force RDS rules for retention periods (reference paragraph 5.6.5).

**5.3. “For Official Use Only” Information.** “For Official Use Only” (FOUO) is a document designation applied to unclassified information that may be exempt from mandatory release under the *Freedom of Information Act* (FOIA). Working papers supporting an audit project are collectively FOUO information. In addition, due to the subject matter of some audits, the working papers and reports may contain information which management has designated as FOUO. To prevent indiscriminate circulation, mark working papers and reports according to the guidance below. **Note:** See DoD 5200.1-R, Appendix 3, for additional information.

5.3.1. Working Papers. Within the electronic working papers, include the “(FOUO)” designation as part of the project code [e.g., F2011-FA1200-0198.000 (FOUO)]. Mark “For Official Use Only” on all manual file folders, CDs, DVDs, CD/DVD storage containers (jewel cases, envelopes, etc.), and other memory devices (e.g., external drives) containing unclassified working paper files. For manual file folders, the marking must appear at the bottom of the outside front cover, on each page containing FOUO information, and on the outside of the back cover. It is not necessary to mark individual electronic files as FOUO unless the files contain FOUO information. In that case, mark the files at each paragraph that contains FOUO information. Individual files within the working papers, not created by the auditor, must retain the designation assigned by the originator. Additionally, when transmitted outside the DoD, working paper files/folders must include the following statement:

“This document contains information exempt from mandatory disclosure under the  
Freedom of Information Act.  
Exemption 5 applies.”

5.3.2. Reports. When AFAA reports contain information management designated as FOUO, the report should be marked FOUO. Mark such reports with the statement “FOR OFFICIAL USE ONLY” at the bottom of the front cover, on the bottom of each page containing FOUO information, and on the outside of the back cover. In addition, mark each paragraph that contains FOUO information with “(FOUO)” at the beginning of the paragraph. Finally, since all AFAA reports may be released to the public, the following exemption information must be located on the front cover of all audit reports containing FOUO information:

“This document contains information exempt from mandatory disclosure under the  
Freedom of Information Act.  
Exemption \_\_\_\_ applies.”

This statement alerts prospective readers that the document is exempt from mandatory public disclosure under FOIA and identifies the reason why by citing the applicable exemption number. FOIA exemption numbers are defined in DoD 5200.1-R, Appendix 3, and DoD 5400.7-R/AFMAN 33-302, *Freedom of Information Act Program*, Chapter 3. Coordinate with HQ AFAA/DOO to ensure the correct exemption number is cited.

5.3.3. Mailing Unclassified Working Papers. Whenever possible, e-mail electronic working papers following the procedures in paragraph 5.3.4. If not possible to e-mail, copy electronic working paper files to a disk (CD or DVD) and send along with any additional manual working papers to the recipient via registered mail. Attach a label with sender and recipient addresses on the outside cover of each working paper file sent. Use the following procedures when mailing working paper files.

5.3.3.1. Using Express Mail. Use express mail only when time is critical. Obtain approval from the next AFAA management level to use express mail. If the host base will not pay express mail costs, obtain a fund cite from HQ AFAA/DORF. Securely package working paper files and deliver to the installation traffic management office with a DD Form 1149, *Requisition and Invoice/Shipping Document*. Follow local procedures when using express mail.

5.3.3.2. Releasing Working Papers Outside AFAA. When releasing unclassified working papers outside AFAA channels, include the following data elements in the working paper heading: (a) Air Force Audit Agency, (b) directorate and division/region office symbol, and (c) office address.

5.3.4. E-mail Procedures. Digitally signing and encrypting e-mail using DoD public key infrastructure (PKI) certificates are two measures used to secure the network. Refer to AFI 33119, *Air Force Messaging*, for additional information related to e-mail transmission procedures.

5.3.4.1. Digitally Signing E-mails. Digital signatures shall be used whenever it is necessary for the recipient to be assured of the sender's identity, have confidence the message has not been modified, or when nonrepudiation is required. Messages containing only unofficial information and not containing an embedded hyperlink and/or attachment should NOT be digitally signed.

5.3.4.2. Encrypting E-mail. DoD PKI-based encryption is not authorized for protecting classified information on systems not approved for that use. Encryption increases bandwidth and resource requirements; therefore, e-mail encryption should be used to protect the following types of information auditors routinely encounter:

5.3.4.2.1. FOUO, *Privacy Act*, and Personally Identifiable Information (PII).

5.3.4.2.2. Individually identifiable health, DoD payroll, finance, logistics, personnel management, proprietary, and foreign government information.

5.3.4.2.3. Contract data.

5.3.4.2.4. Export controlled technical data or information.

5.3.4.2.5. Operations security (OPSEC) information. For additional information on OPSEC requirements, reference AFI 10-701, *Operations Security (OPSEC)*.

5.3.4.2.6. Information specified for encryption by domain owners pertaining to individual areas of responsibility (reference AFD 33-4, *Enterprise Architecting*).

5.3.4.3. E-mailing "FOUO" Information.

5.3.4.3.1. Transmittal files that have FOUO attachments shall be marked with the statement "FOR OFFICIAL USE ONLY ATTACHMENT" in the body of the message.

5.3.4.3.2. Each part of electronically transmitted messages containing FOUO information shall be marked appropriately. Messages containing FOUO information shall contain the abbreviation "FOUO" before the beginning of the text containing FOUO and in the beginning of the message's subject line.

5.3.4.3.3. Do not transmit FOUO information to or from locations that do not have a "\*.mil" address, whether or not the files have been compressed and password protected. In particular, telecommuters will not e-mail FOUO information between the office, their home e-mail address, or any other non "\*.mil" address.

5.3.4.3.4. For the purposes of this policy, treat all project files (working papers, CDAP Response Sheets, draft reports, etc.) as FOUO.

**5.4. Air Force Privacy Program.** The purpose of the *Privacy Act* is to safeguard individual information, including PII, contained in Federal records; provide individuals access and amendment rights to their records; balance individual privacy interests with the Government's need to maintain information; provide judicial remedies for wrongful disclosure; control disclosure; and ensure *Privacy Act* information is used "For Official Use Only". (**Note:** Attachment 8 includes the definition of PII, as well as examples of PII and examples of normally releasable PII.) *Privacy Act* information is sensitive and entails special procedures for handling, marking, and destroying. Violation of these procedures can result in penalties. AFAA personnel will reference AFI 33-332, *Air Force Privacy Program*, for detailed guidance on protecting *Privacy Act* information. Auditors who include PII in working papers will utilize the following procedures to label, safeguard, store, and retain the working papers.

5.4.1. Labeling Material. Clearly label all materials [e.g., e-mails, working papers, computer listings (manual or electronic), computer tapes and disks, and the corresponding folders] that contain PII "\*\*\*\*PRIVACY ACT DATA, MUST BE SAFEGUARDED IAW AFI 33-332 and PL 93579, *Privacy Act of 1974*\*\*\*\*." Individual electronic files containing PII should also contain the *Privacy Act* advisory in the footer, along with the following statement: "The information herein is For Official Use Only (FOUO) which must be protected under the *Freedom of Information Act of 1966* and *Privacy Act of 1974*, as amended. Unauthorized disclosure or misuse of this PERSONAL INFORMATION may result in criminal and/or civil penalties." Also, annotate the associated electronic working paper file name with a "(PA)" designation [e.g., Personnel Listing (PA)] and apply a "(PA)" designation to the entire project [e.g., F2011-FA1200-0198.000 (FOUO/PA)] to alert personnel that the file(s) and folder contain PII requiring special handling and storage. **Note:** The AFAA Toolkit includes "PA of 1974" and "FOUO" buttons to facilitate proper labeling of working papers.

5.4.2. Safeguarding PII Material. Protect all PII records at a Confidentiality Level of "Sensitive" or higher.

5.4.2.1. Loss or suspected loss of PII shall be reported in accordance with AFI 33-332; DOD 5400.11-R, *Department of Defense Privacy Program*; and OSD Memorandum, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*.

5.4.2.2. All electronic systems of records shall be assigned a "High" or "Moderate" PII impact security category according to the definitions established in AFI 33-332 and Federal Information Processing Standard (FIPS) 199, *Standards for Security Categorization of Federal Information and Information Systems*. Categorize electronic PII records according to the potential negative impact of loss or unauthorized disclosure:

5.4.2.2.1. High Impact. Any program or project-level compilation of electronic records containing PII on 500 or more individuals stored on a single device or accessible through a single application or service, whether or not the compilation is subject to the *Privacy Act*. Also, any compilation of electronic records containing PII on less than 500 individuals identified by the information or data owner as requiring additional protection measures. A single mobile computing or storage device containing PII on 500 or more individuals, even if the PII is distributed across multiple files or directories, is considered high impact. In addition, electronic records containing social security numbers are categorized as high impact.

5.4.2.2.2. Moderate Impact. Any electronic records containing PII not identified as high impact.

5.4.2.3. Do not send *Privacy Act* information to distribution lists or group e-mail addresses unless each member has an official need to know the personal information. Before forwarding emails that contain personal information, verify the intended recipients are authorized to receive the information under the *Privacy Act*. Personal information may not be disclosed to anyone outside the DoD unless specifically authorized by the *Privacy Act*.

5.4.2.4. E-mails shall be encrypted and digitally signed when they contain FOUO and *Privacy Act* information sent to other Air Force or DoD offices for official purposes. When transmitting personal information over e-mail, add “(FOUO)” to the beginning of the subject line, followed by the subject title. Insert the following statement at the beginning of the e-mail: “The information herein is For Official Use Only (FOUO) which must be protected under the *Privacy Act of 1974*, as amended. Unauthorized disclosure or misuse of this PERSONAL INFORMATION may result in criminal and/or civil penalties.” Do not indiscriminately apply this statement to e-mails. Use it only in situations when transmitting personal information for official purposes within the Government.

#### 5.4.3. Storage.

5.4.3.1. Store all manual working papers containing PII in locked cabinets or secured rooms. Manual documents and printed materials containing PII shall be covered with the AF Form 3227, *Privacy Act Cover Sheet*, or DD Form 2923, *Privacy Act Data Cover Sheet*, when removed from a system of records. Destroy the data when identified for destruction (as opposed to recycling or placing items in the trash).

5.4.3.2. Store all electronic working papers containing PII on a central server unless the files are properly encrypted. The encryption method must meet National Institute of Standards and Technology Federal Information Processing Standard (NIST FIPS) 140-2, *Security Requirements for Cryptographic Modules*. AFAA does not currently have standard NIST FIPS-compliant encryption software. Contact HQ AFAA/DOVS for approval of any encryption software and methodology prior to use. **Note:** Files stored on a central server must be access controlled. Contact your customer service technician or network help desk for assistance with establishing server access controls. Ensure at least two individuals have authorized access (at least one of the individuals should be a supervisor).

5.4.3.3. Only DoD-authorized devices shall be used for remote access. If TDY or teleworking, auditors should access PII data via an authenticated, virtual private network connection to an Air Force file server or ensure the files are properly encrypted (reference paragraph [5.4.3.2](#)). **Note:** Current Microsoft Office encryption does NOT meet NIST FIPS 140-2. As such, personnel should coordinate with the data source to password protect and upload necessary data to an access-controlled AFAA project CoP from which the data should be downloaded to an Air Force file server as soon as possible and then deleted from the AFAA project CoP.



5.4.3.4. Auditors will not remove PII data from a “protected workplace” for transition to/from a TDY or telework site unless the data are properly encrypted (paragraph 5.4.3.3).

5.4.4. Retention of Data. To reduce the volume of data requiring special handling, maintain listings and products containing PII only if needed to support an audit finding. If using computer retrievals, have the program print only the finding data when possible. If using a general listing to select a sample, prepare a supporting schedule listing the sample items and identify the listing and universe size. Do not retain the listing containing the entire universe.

5.4.5. Administrative Documents. Administrative documents containing PII for assigned auditors should not be included in archived working paper files. Do not include any *Privacy Act* information in working papers files beyond that which is necessary to support audit findings and conclusions. In particular, auditors will not place copies of the audit team’s TDY orders, travel vouchers, or award justifications in official working paper files. These documents, when no longer needed, should be destroyed by any method that prevents compromise, such as burning or shredding, so long as the personal data are not recognizable and are beyond reconstruction.

5.4.6. All AFAA personnel are required to complete initial and annual refresher *Privacy Act* training in accordance with AFI 33-332. This training should be accomplished prior to accessing PII.

**5.5. Fraud-Related Working Papers.** Retain working papers for 6 years when the audit supports an AFOSI referral or contains any information related to suspected fraud or falsification of documents. For manual working papers or working papers saved to a CD/DVD, attach a coversheet or label that clearly identifies the 6-year retention period. For working papers stored on a central server, save all fraud-related working papers in a separate folder that clearly identifies the more stringent retention requirements associated with fraud-related working papers. These actions will preclude inadvertent destruction before the retention period expires.

**5.6. File Maintenance.** After completing or terminating the audit, the auditor will test a sample of hyperlinks to ensure their operability and then the audit team will follow local procedures to store (archive) the project files. All completed projects (to include canceled/terminated projects that were announced) must be stored on two media satisfying the ability to retrieve all completed project files from an alternative source in the event archived files from the primary storage method are not retrievable (damaged or destroyed). Each Assistant Auditor General will determine what procedures are necessary to ensure primary and back-up archived working paper files are maintained for their directorate/region based on support provided by installation Network Control Centers for server back-up and the corresponding off-site storage capability. Methods to satisfy storage on two media include: a server and one CD/DVD or external drive; two CDs, two DVDs, two external drives, or a combination thereof; two servers located in at least different buildings; or one server and current daily server backup tapes stored in a different building from the server. Hardcopy project folders are not required if all working paper files are electronic. Accordingly, when archiving on CDs/DVDs binders may be used to file and centrally store CDs/DVDs for each division/office. Complete archiving within two weeks of the receipt date of the final electronic report distribution.

5.6.1. Archiving on CD/DVDs. The greater capacity of DVDs makes them a better choice for storing large projects. When backing up files on a CD or DVD, use locally provided



software. In addition, under certain circumstances it may be necessary to compress working paper files before placing them on a CD or DVD. For example, when archiving, an error message stating “File Names are Too Long” may appear. If so, compress the project files prior to creating the CD or DVD. In general, keep file and folder paths as short as possible to avoid hyperlinking problems that sometimes occur when file names and paths are too long. Also, when saving documents during the audit, especially e-mails, rename the files rather than using the default names provided by the operating system. In certain circumstances, the supplied names can be quite long. **Note:** Instead of compressing files with long names, it may be possible to shorten the file names if they are few in number and doing so can be accomplished without adversely affecting hyperlink operability. When compressing files, follow the instructions provided with the local software program.

5.6.2. Archiving on a Server. Control access to official, archived project files stored on a server and limit the number of personnel with access to reduce the chance of file corruption or alteration. When files are archived on a central server, set properties to “read only” so no further changes to the files are possible. If it becomes necessary to remove archived files from a server before the retention period expires (paragraph 5.6.5), save the project files electronically on a second CD/DVD or external drive and store the CD/DVD/external drive in a central location. **Note:** Never place files that contain personal (*Privacy Act*) information on a shared drive unless appropriate controls are in place to ensure access by only authorized individuals. Reference AFI 33-332, Chapter 12.

5.6.3. Labeling. Place a label on each CD/DVD, including backups, which identifies the audit location and lead auditor, applicable project number, and report number and date. In addition, mark the disks and the front and back of any storage container (e.g., jewel case, envelope, or file folder) in which the disks are placed “FOR OFFICIAL USE ONLY”.

5.6.3.1. Classified Information. If the electronic working papers contain classified information, mark the CDs and the CD storage container in accordance with paragraph 5.2.5

5.6.3.2. *Privacy Act* Information. If the electronic working papers contain personal information, mark the disks and storage container “\*\*\*\*\*PRIVACY ACT DATA, MUST BE SAFEGUARDED IAW AFI 33-332 and PL 93-579, *Privacy Act of 1974*\*\*\*\*\*.” Individual electronic files containing *Privacy Act* information should also contain the *Privacy Act* advisory in the header or footer. The electronic working paper toolbars have a “PA” button that contains the standard *Privacy Act* statement. See paragraph 5.4 for additional guidance.

5.6.4. Password Protection. For any file containing a password, the working papers should contain instructions on how to gain access. Secure these instructions from disclosure to unauthorized personnel.

5.6.5. Retention. Retain audit reports and working papers in accordance with the Air Force RDS, Table 65-03, *Financial Management - Auditing*.

**5.7. *Rehabilitation Act of 1973*.** In 1998, Congress amended the *Rehabilitation Act of 1973* to require Federal agencies to make their electronic and information technology accessible to people with disabilities. The law applies to all Federal agencies when they develop, procure, maintain, or use electronic and information technology. Under Section 508 of the Act

(29 United States Code §794d), agencies must give disabled employees and members of the public access to information that is comparable to access available to others. To comply with this law, AFAA organizations must ensure all AFAA audit reports are Section 508 compliant.

**5.7.1. AFAA organizations will run the accessibility “Full Check” within Adobe Acrobat Professional and correct any accessibility problems detected by the software program.** Full compliance is achieved only when the Adobe Acrobat accessibility checker identifies no problems within the document.

5.7.2. For specific instructions on creating and correcting 508-compliant documents, AFAA personnel should refer to the accessibility guides located on the Acrobat accessibility training resources website.

## Chapter 6

### WORKING PAPERS

**6.1. Overview.** Working papers are the link between fieldwork and the audit report. Working papers serve as a record of the audit results and the basis of the auditors' opinions, provide the principal support for the audit report, aid auditors in conducting and supervising the audit, and allow others to review the audit's quality and compliance with government auditing standards. This chapter provides guidance on working paper preparation and retention.

**6.2. Responsibilities.**

6.2.1. Auditors and Audit Managers. Auditors and audit managers are responsible for preparing, assembling, summarizing, and cross-referencing working papers for the planning and application phases of each assigned audit project.

6.2.2. Team Chiefs and Program Managers. Team chiefs and program managers must verify that working papers meet government auditing standards, comply with AFAA policies and procedures, and fully support the audit results. They best accomplish this through frequent working paper reviews.

6.2.3. Office Chiefs and Associate Directors. Office chiefs and associate directors will review and evaluate a sample of audit working paper files to determine if they meet established standards and adequately support the audit results. Office chiefs and associate directors will use either the Working Paper Review Checklist on the AFAA Home CoP or a similar locally developed checklist.

6.2.3.1. Office chiefs will periodically review working papers in accordance with directorate policy. If the directorate does not specify, the minimum requirement is one set of audit working papers per team every 6 months. After completing the working paper review, the office chief will discuss the review results with the auditor and team chief. In addition, the office chief will maintain a file of completed working paper review checklists for ready reference. **Note:** Office chiefs should normally select completed projects for review.

6.2.3.2. Associate directors should review working papers in accordance with directorate policy. If the directorate does not specify a policy, the minimum requirement is one set of working papers per branch annually. After completing the working paper review, the associate director will discuss the review results with the audit manager and program manager. The associate director will maintain a file of completed working paper review checklists for ready reference. **Note:** Associate directors should normally select completed projects for review. Associate directors should also periodically review program manager research (subject identification) files.

**6.3. Supervisory Review.** Working papers must contain clear evidence of supervisory review.

6.3.1. Coaching Notes. Audit supervisors will use TeamMate coaching notes to document supervisory review of audit working papers. The auditor will answer each coaching note and take appropriate action. The supervisor will then clear the auditor's comments and corrective action, providing a final comment, if necessary, to indicate concurrence with responses/action taken. Additionally, TeamMate coaching notes should be used to document

significant actions during the audit such as the transition from one auditor to another or a change in the audit supervisor. Auditors can also use the TeamMate reports capability to print consolidated TeamMate coaching notes into the Coaching Notes Report.

6.3.2. Frequency. The frequency of supervisory review depends on the skills and experience of the auditor. Reference AFAAI 65-101, Chapter 3, for requirements associated with installation-level auditors and AFAAI 65-102, Chapter 3, for requirements associated with audit managers.

**6.4. Working Paper Guidelines.** In addition to the above requirements, the following are general guidelines for all working papers: AFAA auditors must prepare working papers electronically using the latest TeamMate library and templates located on the AFAA Home CoP. The office chief/associate director must approve any deviation from the file structure contained in the TeamMate library.

6.4.1. Completeness and Accuracy. Working papers should be complete and accurate to properly support findings and conclusions and to show the nature and scope of the review.

6.4.2. Clarity and Understandability. Working papers should be understandable without supplementary oral explanations. Anyone using or reviewing the working papers should be able to readily determine their purpose and source, the nature and scope of the work performed, and the auditor's conclusions. Conciseness is important, but do not sacrifice clarity and completeness just to save time or space.

6.4.3. Relevance. Restrict information in working papers to matters relevant to the audit objectives.

6.4.4. Document work performed to support significant conclusions and judgments, including descriptions of transactions and records examined that would enable an experienced auditor to examine the same transactions and records. Auditors are not required to include copies of examined documents in their working papers nor are they required to list detailed information from those documents.

**6.5. Procedure Requirements.** Auditors will prepare working papers for every audit project. They will follow the specific procedures for uniform working paper organization and presentation presented in this chapter and AFAAI 65-101, Chapter 3 (installation-level audits), or AFAAI 65-102, Chapter 3 (CDAs). Beyond these procedures and requirements, auditors must use professional judgment and initiative in determining the best manner of presentation. In all cases, working papers must be complete, accurate, clear, legible, neat, and contain only those materials pertinent to the audit. Individual working papers should contain:

6.5.1. Purpose, Source, Details and Conclusion. All audit support must be attached to a procedure step that contains purpose, source, details, and conclusion (PSDC). When using TeamMate, it is no longer necessary to include PSDC on each supporting document, so long as they are linked to procedure steps.

6.5.2. Schedules. The wide variety of audit subjects in the Air Force may require the auditor to plan and design unique schedules for each project. Therefore, properly planning schedules will ensure they provide written evidence of work performed and pinpoint deficient conditions.

6.5.2.1. Requirements. In developing a schedule, the auditor must determine:

6.5.2.1.1. What he or she will prove (the audit objective).

6.5.2.1.2. What data he or she will need to complete the schedule.

6.5.2.1.3. What comparisons or analyses he or she will make to prove the condition or arrive at a conclusion.

6.5.2.1.4. Where he or she will locate the data (filed, recorded, etc.) and how to identify the data.

6.5.2.2. Design. After determining schedule requirements, the auditor must design a schedule that will clearly present the results of the audit work. Each schedule must contain the following basic elements as part of the schedule or as part of the procedure steps (or, as applicable, hyperlinks to files where the information is located):

6.5.2.2.1. Title or heading that clearly identifies the schedule and its purpose.

6.5.2.2.2. Identity of the organization and/or activity involved.

6.5.2.2.3. Applicable time periods.

6.5.2.2.4. Source(s) of data presented.

6.5.2.2.5. Data used for comparison or analysis (e.g., stock number, name, quantity, and unit cost).

6.5.2.2.6. Conclusion or results of the comparison or analysis.

6.5.2.3. Additional Elements and Requirements. Use the additional information identified below in preparing schedules and other supporting working papers.

6.5.2.3.1. Neatness and clarity are essential elements of all working papers and are particularly critical to develop meaningful and understandable schedules.

6.5.2.3.2. Properly hyperlink (cross reference) findings (i.e., TeamMate exceptions) to the related procedure steps, schedules, and other supporting working papers.

6.5.2.3.3. Keep footnotes simple. Clearly explain or define footnotes on the page they appear or in a separate legend on the first or last page of the schedule.

6.5.3. Other Working Papers. Attachment 7 contains a list of various types of data the auditor can include in supporting working papers. However, this list is not all-inclusive. **Note:** When used, records of discussion must show the individual's name, rank/grade, duty title, phone number, organization, date of discussion, subject discussed, and the details of the discussion.

6.5.4. Hyperlinks.

6.5.4.1. Auditors will hyperlink procedures to interdependent procedures (those procedures used as a source to prepare other procedures). **Note:** Remember to download web-based documents before hyperlinking.

6.5.4.2. Auditors will hyperlink procedures to attachments, if stored in a different location. (TeamMate automatically links attachments to the procedures where inserted.)

6.5.4.3. Avoid excessive hyperlinks. Excessive "cell to cell" hyperlinking should be avoided because it degrades TeamMate project performance. However, the auditor must

ensure the hyperlinks are sufficient to allow an individual independent of the project to locate the information and draw the same conclusions.

**6.6. Finding (Exception) Requirements.** Prepare working papers that summarize the data contained in the supporting working papers (audit program step responses, control assessments, schedules, and other related documents). Follow the guidance below and in Attachment 7 on required finding elements. Proper use of findings will significantly facilitate both report writing and working paper reviews.

6.6.1. Work Performed. This paragraph explains what the auditor did to accomplish the stated purpose. The response to this block populates the related draft report section, so the auditor should complete this as they want it to appear in the report.

6.6.2. Finding Elements. The finding elements are as follows.

6.6.2.1. Condition. The first (topic) sentence of an audit finding is the condition. This element will always state the positive or negative condition disclosed as a result of the detailed work performed. Ideally, this will also be the focus sentence for the audit results paragraph in the audit report. **Note:** Include positive (deficiency-free) as well as negative (deficient) conditions. For example, if the auditor found that “management established adequate inventory procedures to ensure a reliable inventory,” “testing disclosed no errors,” etc., so state in the condition paragraph. The word “none” is not acceptable to describe a positive condition.

6.6.2.2. Criteria. These are the guidelines (laws, directives, good business practices, etc.) used to evaluate the audited function.

6.6.2.3. Support. This element provides specific details of the condition. Include specific examples or a schedule that highlights the magnitude of the deficiency. Provide support for positive as well as negative conditions.

6.6.2.4. Cause. This is the root cause (weak or absent controls or reasons for noncompliance with existing controls) of the deficient condition and is the element of the finding the recommendation(s) will address. If the condition is positive, the cause paragraph is not applicable.

6.6.2.5. Effect. This element describes the significance of the finding and identifies potential monetary benefit (PMB), if any. If there is no effect, either real or potential, the finding is not reportable. If the condition is positive, the effect paragraph is not applicable.

6.6.2.5.1. If PMB is identified, the working papers will clearly indicate how the auditor computed the savings, including any rationale used in developing the PMB. Follow the guidance in Chapter 17 for calculating and reporting PMB.

6.6.2.5.2. For negative conditions that have weak or very limited effect to management, include “minor” or “oral” as applicable, after the related recommendation in the working papers. Use “minor” if planning to issue an Additional Results Memorandum (reference AFAAI 65-101, Chapter 4) containing the condition. Use “oral” if out-briefing the finding but not including it in a report or memorandum.

6.6.3. Recommendations. This paragraph must address correction of the root cause of the deficient condition as well as correct any specific deficiencies identified in the “support” element of the audit results paragraph. If the condition is positive, the recommendations paragraph is not applicable.

6.6.4. Hyperlinks. Auditors will hyperlink (cross-reference) all elements of the audit finding through the procedures step to the supporting working papers.

6.6.5. Use the following questions to assess the adequacy of findings:

6.6.5.1. Work Performed. Have you fully explained exactly what you did to accomplish the stated purpose?

6.6.5.2. Condition. Does the first (topic) sentence state the positive or negative condition disclosed as a result of the audit work performed?

6.6.5.3. Criteria. Have you identified all appropriate criteria against which you measured actual performance for each objective?

6.6.5.4. Support. Did you provide specific details of the deficient condition? If applicable, did you include examples that highlight the magnitude of the deficiency?

6.6.5.5. Cause. Did you identify the root cause (weak or absent controls or reasons for noncompliance with existing controls) of the deficient condition?

6.6.5.6. Effect. Did you identify the full significance of the finding? Are PMB computations and rationale used to develop PMB properly documented (reference paragraph [17.10](#))?

6.6.5.7. Recommendations. Do the recommendations address the condition and the root cause of the condition? If applicable, do the recommendations also correct specific deficiencies identified in the support element of the findings paragraph?

**6.7. Changes During Application.** If it is necessary to revise (add or delete) audit objectives (purpose) during the application phase, or to terminate the audit project without issuing a report, follow the guidance in the paragraphs below.

6.7.1. Revisions to Objectives/Purpose. If during the course of answering the audit objectives (purpose), audit work leads to additional review areas, notify management orally of the additional objectives. When revisions to the audit objectives cause milestone or resource changes, obtain team chief/program manager approval for the changes and update the AFAA MIS.

6.7.2. Audit Program Changes. Revise the audit program to add steps to accomplish the new objectives. The team chief/program manager must approve revisions to the audit program.

6.7.3. Early Termination. If it becomes necessary to close an announced audit without a report, obtain the appropriate approval to close the project. Issue a closure memorandum following the guidance in AFAAI 65-101, Chapter 2, or AFAAI 65-102, Chapter 3, and update the AFAA MIS.

## Chapter 7

### INTERNAL CONTROLS

**7.1. Overview.** AFAA auditors will review internal controls during each audit in accordance with the guidance provided in this chapter, as well as AFAAIs 65-101 and 65-102.

**7.2. Responsibilities.**

7.2.1. Auditors. Auditors will follow the guidance presented in this chapter for each project and document the work performed in working papers meeting the requirements of Chapter 6.

7.2.1.1. Auditors will review controls in the planning phase and, based on the results, either limit or expand control tests during application.

7.2.1.2. At a minimum, each audit program will include steps to confirm compliance with significant controls identified during the planning phase.

7.2.2. Supervisors. Supervisors will require auditors to identify and evaluate controls during the planning phase, include tests of significant controls in the audit program, and report material control weaknesses.

**7.3. Internal Control Assessments.** Government auditing standards require auditors to review and evaluate internal controls during all audits. The purpose is to determine if the established controls are (a) working as intended and (b) provide reasonable assurance of detecting or preventing errors, irregularities, inefficiencies, or uneconomical practices.

7.3.1. Identify Internal Controls. During the planning phase, the auditor will identify the internal controls (processes and procedures) established and implemented to account for and protect assets, assure accurate reporting, and efficiently and effectively accomplish the mission of the activity under review. This step is normally accomplished through review of regulations and operating instructions, discussions with managers and operating personnel, physical inspection, review of internal control reports (assessments performed to meet FMFIA requirements), and reviews of prior audit reports. The five GAO standards for internal controls as outlined in GAO-01-1008G, *GAO Internal Control Management and Evaluation Tool*, are control environment, risk assessment, control activities, information and communication, and monitoring.

7.3.1.1. Control Environment. Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

7.3.1.2. Risk Assessment. Management should identify internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take into account relevant interactions within the organization as well as with outside organizations. Management should also consider previous findings (e.g., auditor identified, internal management reviews, or noncompliance with laws and regulations when identifying risks). Identified risks should then be analyzed for their potential effect or impact on the organization.

7.3.1.3. Control Activities. Control activities include policies, procedures, and mechanisms in place to help ensure that organizational objectives are met. Several



examples include proper segregation of duties; physical control over assets; reconciliation of actual and recorded inventory; access restrictions to classified information; proper authorization; and appropriate documentation and access to that documentation.

7.3.1.4. Information and Communication. Information should be communicated to relevant personnel at all levels within an organization, in a form and within a timeframe that enables them to carry out their responsibilities. The information should be relevant, reliable, and timely. It is also crucial that an organization communicate with outside organizations as well, whether providing information or receiving it. Examples include receiving updated guidance from central organizations; management communicating requirements to the operational staff; and operational staff communicating with the information systems staff to modify application software.

7.3.1.5. Monitoring. Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can provide the resources needed to maintain effective internal controls throughout the year. Deficiencies found in internal controls should be reported to the appropriate personnel and management responsible for that area.

7.3.2. Flowchart Controls. The auditor must gain an understanding of the activity's control environment and flow of transactions. Flowcharts assist in this process by providing a graphic portrayal of the operation, and they help the auditor visualize and comprehend the activity's work processes. They are also beneficial in evaluating the adequacy of controls; therefore, use flowcharts whenever feasible. However, use of flowcharting is not practicable in every instance. Time constraints and the size and complexity of the activity are factors the auditor considers before reaching a decision to use flowcharts. When the auditor does not use flowcharts, a written narrative of the operation will suffice.

7.3.3. Test Controls. During the planning phase, auditors will perform limited tests to assess compliance with established controls and to form a preliminary opinion on their effectiveness. These tests will help the auditor determine the nature, timing, and extent of any additional detailed audit tests deemed necessary.

7.3.3.1. If the auditor concludes controls are adequate, the auditor should reduce the extent of detailed testing during the application phase.

7.3.3.2. Conversely, if the auditor doubts the reliability of controls or elements thereof, the auditor should accomplish further in-depth audit work in the areas identified.

**7.4. Types of Audits.** All audits begin with objectives, and those objectives determine the type of audit and the audit standards to follow. The Comptroller General classifies audit types as either financial or performance.

7.4.1. Financial Audits. Officials and employees who manage federal programs need to render a public accounting of their activities. The need for accountability created a demand for more information about government programs and services. Financial auditing provides accountability through independent reports on whether an entity (a) presented fairly its

financial information, (b) adequately designed and effectively implemented a system of internal controls, and (c) complied with laws and regulations. Financial audits include financial statement and financial-related audits.

7.4.1.1. Financial Statement Audits. The primary purpose of a financial statement audit is to provide reasonable assurance through an opinion (or disclaim an opinion) about whether an entity's financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles.

7.4.1.2. Financial-Related Audits. Financial-related audits include determining whether (a) financial information is presented in accordance with established or stated criteria, (b) the entity adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and safeguarding assets is suitably designed and implemented to achieve the control objectives.

7.4.2. Performance Audits. Performance audits provide an independent assessment of the performance of a government organization, program, activity, or function. The intent is to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Performance audits include economy and efficiency and program audits.

7.4.2.1. Economy and Efficiency Audits. Economy and efficiency audits focus on the activity's resources. These audits determine (a) whether the entity is acquiring, protecting, and using its resources (e.g., personnel, property, and space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity complied with laws and regulations on matters of economy and efficiency.

7.4.2.2. Program Audits. Program audits focus on the activity's mission. These audits include determining (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (b) the effectiveness of organizations, programs, activities, or functions, and (c) whether the entity has complied with significant laws and regulations applicable to the program.

## **7.5. Financial Audits.**

7.5.1. Evaluating Risk. The following four aspects of internal controls are important to the judgments auditors make about audit risk and the evidence needed to support their opinion on the financial statements:

7.5.1.1. Control Environment. Auditors' judgments about the control environment may influence, either positively or negatively, their judgments about specific control procedures. For example, evidence indicating the control environment is ineffective may lead auditors to question the effectiveness of a control procedure for a particular financial statement assertion. Conversely, based on evidence indicating the control environment is effective, auditors may decide to reduce the number of locations where they will perform auditing procedures.

7.5.1.2. Safeguarding Controls. Safeguarding controls relates to the prevention or timely detection of unauthorized transactions and unauthorized access to assets that could result in losses material to the financial statements. Understanding these controls can help

auditors assess the risk that financial statements could be materially misstated. For example, an understanding of an auditee's safeguarding controls can help auditors recognize risk factors such as:

7.5.1.2.1. Failure to adequately monitor decentralized operations.

7.5.1.2.2. Lack of controls over activities, such as maintaining documentation for major transactions.

7.5.1.2.3. Lack of access controls to information systems, which include physical controls (physical security) and application controls (authority to access certain applications related to a level of responsibility).

7.5.1.2.4. Failure to develop or communicate adequate policies and procedures for data or asset security, such as allowing access to unauthorized personnel.

7.5.1.2.5. Failure to investigate significant unreconciled differences between reconciliations of a control account and subsidiary records.

7.5.1.3. Controls Over Compliance With Laws and Regulations. Auditors will obtain an understanding of internal controls relevant to financial statement assertions affected by laws and regulations. Auditors will use that understanding to identify types of potential misstatements, consider factors that affect the risk of material misstatement, and design substantive tests. For example, the following control environment factors may influence the auditors' assessment of control risk:

7.5.1.3.1. Management awareness or lack of awareness of applicable laws and regulations.

7.5.1.3.2. Auditee policy regarding such matters as acceptable operating practices and codes of conduct.

7.5.1.3.3. Assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objectives, operating functions, and regulatory requirements.

7.5.1.4. Control Risk Assessments.

7.5.1.4.1. When auditors assess control risk below the maximum for a given financial statement assertion, they reduce their need for evidence from substantive tests of that assertion. Although the auditor has no requirement to assess control risk below the maximum, the likelihood they will find it efficient and effective to do so increases with the size of the entities they audit and the complexity of their operations. Auditors will do the following when assessing control risk below the maximum:

7.5.1.4.1.1. Identify internal controls that are relevant to a specific financial statement assertion.

7.5.1.4.1.2. Perform tests that provide sufficient, appropriate evidence those controls are effective.

7.5.1.4.1.3. Document the tests of controls.

7.5.1.4.2. Auditors will remember the following when planning and performing tests of controls:

7.5.1.4.2.1. The lower the auditors' assessment of control risk, the more evidence they need to support that assessment.

7.5.1.4.2.2. Auditors may have to use a combination of different kinds of tests of controls to get sufficient, appropriate evidence of a control's effectiveness.

7.5.1.4.2.3. Inquiries alone generally will not support an assessment that control risk is below the maximum.

7.5.1.4.2.4. Observations provide evidence about a control's effectiveness only at the time observed. They do not provide evidence about its effectiveness during the rest of the period under audit.

7.5.1.4.2.5. Auditors can use evidence from tests of controls in prior audits (or at an interim date), but auditors must first obtain evidence about the nature and extent of significant changes in policies, procedures, and personnel since those tests were last performed.

7.5.1.4.3. Auditors may find it necessary to reconsider their assessments of control risk when their substantive tests detect misstatements, especially those that appear to be irregularities or illegal acts. As a result, auditors may find it necessary to modify their planned substantive tests for some or all financial statement assertions. Deficiencies in internal controls that led to those misstatements may be reportable conditions or material weaknesses that require reporting.

#### 7.5.2. Reporting.

7.5.2.1. Auditors may report on compliance with laws and regulations and internal controls in the report on the financial statements or in separate reports. When auditors report separately on compliance and controls, the report on the financial statements should state the audit activity is issuing additional reports.

7.5.2.2. Auditors will report the scope of their testing of compliance with laws and regulations and of internal controls. If the tests they performed did not exceed those the auditors considered necessary for a financial statement audit, then a statement that the auditors tested compliance with certain laws and regulations, obtained an understanding of internal controls, and assessed control risk would be sufficient to satisfy this requirement. Auditors will also report whether the tests they performed provided sufficient, appropriate evidence to support an opinion on compliance or internal controls.

7.5.2.3. When auditors conclude, based on evidence obtained, that an irregularity or illegal act either has occurred or is likely to have occurred, they will report relevant information.

7.5.2.4. Auditors will report deficiencies in internal controls they consider to be "reportable conditions." The following are examples of deficiencies that may be reportable (as defined in American Institute of Certified Public Accountants [AICPA] standards):

7.5.2.4.1. Absence of appropriate segregation of duties consistent with appropriate control objectives.

- 7.5.2.4.2. Absence of appropriate reviews and approvals of transactions, accounting entries, or systems output.
  - 7.5.2.4.3. Inadequate provisions for safeguarding assets.
  - 7.5.2.4.4. Evidence of failure to safeguard assets from loss, damage, or misappropriation.
  - 7.5.2.4.5. Evidence that a system fails to provide complete and accurate output consistent with the auditee's control objectives because of the misapplication of control procedures.
  - 7.5.2.4.6. Evidence of intentional override of internal controls by those in authority to the detriment of overall system objectives.
  - 7.5.2.4.7. Evidence of failure to perform internal control tasks, such as reconciliations not prepared or not timely prepared.
  - 7.5.2.4.8. Absence of a sufficient level of control consciousness within the organization.
  - 7.5.2.4.9. Significant deficiencies in the design or operation of internal controls that could result in violations of laws and regulations having a direct and material effect on the financial statements.
  - 7.5.2.4.10. Failure to follow up and correct previously identified deficiencies in internal controls.
- 7.5.2.5. Regarding reportable conditions, auditors will identify those that are individually or cumulatively material control weaknesses.
- 7.5.2.6. When auditors detect deficiencies in internal controls that are not reportable conditions, they will communicate those deficiencies to the auditee, preferably in writing. If the auditors have communicated other deficiencies in internal controls in a memorandum to management, they will refer to that memorandum when reporting on controls. Auditors will document in their working papers all communications to the auditee about internal control deficiencies.

## **7.6. Performance Audits.**

### **7.6.1. Evaluating.**

7.6.1.1. Internal controls, in the broadest sense, include the plan of organization, methods, and procedures management adopted to meet its goals. Internal controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. The following classification of internal controls will help auditors focus on understanding internal controls and determining their significance to the audit objectives.

7.6.1.1.1. Program Operations. Controls over program operations include policies and procedures that management has implemented to reasonably verify a program meets its objectives. Understanding these controls can help auditors understand the program operations that convert efforts to outputs.

7.6.1.1.2. **Validity and Reliability of Data.** Controls over the validity and reliability of data include policies and procedures management has implemented to reasonably assure valid and reliable data are obtained, maintained, and fairly disclosed in reports. These controls help assure management of getting valid and reliable information about program operations. Understanding these controls can help auditors (a) assess the risk of data gathered by the entity not being valid and reliable, and (b) design appropriate tests of the data.

7.6.1.1.3. **Compliance With Laws and Regulations.** Controls over compliance with laws and regulations include policies and procedures that management has implemented to reasonably assure resource use is consistent with laws and regulations. Understanding the controls relevant to compliance with those laws and regulations the auditors have determined are significant can help auditors assess the risk of illegal acts.

7.6.1.1.4. **Safeguarding Resources.** Controls over the safeguarding of resources include policies and procedures management has implemented to reasonably assure resources are safeguarded against waste, loss, and misuse. Understanding these controls can help auditors plan economy and efficiency audits.

7.6.1.2. Auditors can obtain an understanding of internal controls through inquiries, observations, inspection of documents and records, or review of other auditors' reports. The following are examples of how the auditors' understanding of internal controls can influence the audit plan:

7.6.1.2.1. Poorly controlled aspects of a program have higher risk of failure, so these aspects may be more significant in terms of audit effort.

7.6.1.2.2. Poor controls in a certain location may lead auditors to target efforts in that location.

7.6.1.2.3. Effective controls over collecting, summarizing, and reporting data may enable auditors to limit the extent of direct testing of data validity and reliability. In contrast, poor controls may lead auditors to perform more direct testing of the data, compare data from outside the entity with client data, or develop their own data.

7.6.1.3. The need to test internal controls depends on their significance to the audit objectives. The following are examples of circumstances where internal controls can be significant to audit objectives:

7.6.1.3.1. In determining the cause of unsatisfactory performance, if that unsatisfactory performance could result from weaknesses in specific internal controls.

7.6.1.3.2. When assessing the validity and reliability of performance measures developed by the audited entity. Effective internal controls over collecting, summarizing, and reporting data will help verify valid and reliable performance measures.

## 7.6.2. Reporting.

7.6.2.1. Reporting on internal controls will vary depending on the significance of any weaknesses found and the relationship of those weaknesses to the audit objectives.

7.6.2.2. In audits where the sole objective is to audit the internal controls, weaknesses found that warrant reporting would be considered deficiencies and be so identified in the audit report.

7.6.2.3. In a performance audit, auditors may identify significant weaknesses in internal controls as a cause for deficient performance. In reporting this type of finding, describe the control weaknesses as the “cause.”

## Chapter 8

### AUDITING STANDARDS

**8.1. Overview.** Auditing standards are broad statements of auditor responsibilities. Standards pertain to auditor professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. Standards are the criteria or performance measures used to guide auditors in their work. Auditors and supervisors must exercise professional judgment throughout the audit process. An awareness of and adherence to auditing standards will improve the quality of audit work and provide a basis for exercising professional judgment.

**8.2. Auditing Standards Sources.** A number of professional and government organizations have issued auditing standards and policies and procedures, including the GAO, the DoD OIG, and the AICPA.

8.2.1. Generally Accepted Government Auditing Standards. The Comptroller General's *Government Auditing Standards*—2007 Revision, often referred to as the “Yellow Book”, provides guidance for financial and performance audits. All AFAA members must adhere to government auditing standards. Adherence to these professional standards helps produce quality audits that are of maximum benefit to Air Force managers.

8.2.2. Financial Audit Manual. The GAO's *Financial Audit Manual* provides detailed steps for performing financial audits.

8.2.3. DoD OIG Audit Policies and Procedures. The audit policies and procedures set forth in the DoD 7600.07-M incorporate Comptroller General standards. The manual was designed, in part, to assist DoD audit organizations in complying with Comptroller General auditing standards, policies, and procedures.

8.2.4. AICPA Auditing Standards. The AICPA statements on auditing standards primarily pertain to public accountants performing financial audits—that is, rendering an opinion on financial statements.

**8.3. AFAA Auditing Standards.** The AFAA follows generally accepted government auditing standards (GAGAS) as promulgated by the United States Comptroller General in the Yellow Book. The Yellow Book includes general, field work, and reporting standards for financial and performance audits. The following GAGAS compliance statement should be included in all audit reports: “We conducted this [performance / financial] audit in accordance with generally accepted government auditing standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on the stated objectives. We believe the evidence obtained provides a reasonable basis for the audit results and conclusions cited in this report.” When auditors do not comply with all applicable GAGAS requirements, they should include the GAGAS compliance statement modified to indicate the standards that were not followed and the resulting effect of not complying with all GAGAS requirements.

**8.4. General Standards.** General standards apply to all financial and performance audits. These standards relate to the qualifications of auditors assigned to perform the audit, the independence of the audit organization and individual auditors, the exercise of due professional



care in conducting the audit and preparing related reports, and the presence of quality controls. The four general standards are:

8.4.1. Qualifications. Auditors assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required. The professional proficiency mentioned here applies to the knowledge and skills of the organization as a whole and not necessarily to each individual auditor. However, each auditor responsible for planning, directing, conducting, or reporting on audits must complete, every 2 years, at least 80 hours of continuing education and training that contributes to the auditor's professional proficiency. **Note:** Government auditing standards do not require staff members who are not involved in planning, directing, or reporting on the audit *and* who charge less than 20 percent annually of their time to audit work to meet the 80-hour CPE requirement. Instead, these individuals must obtain 24 hours of training during each 2-year period in subjects and topics directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Reference AFI 36-401/AFAA Supplement for additional information.

8.4.2. Independence. In all matters relating to the audit work, the audit organization and the individual auditor should be free in both fact and appearance from personal, external, and organizational impairments to independence.

8.4.2.1. Responsibilities. Auditors at all levels, from those who conduct the audit and write the report to the highest levels that review the report, have a responsibility to maintain independence so that opinions, conclusions, judgments and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. An auditor will avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude the auditor is not able to maintain independence and, thus, is not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

8.4.2.2. Impairment Classes. Auditors must consider three general classes of impairments to independence: personal, external and organizational. If one or more of these impairments affects an auditor's ability to perform the work and report results impartially, and the identified impairments cannot be mitigated, the auditor will decline to perform the work.

8.4.2.2.1. Personal Impairments. Personal impairments result from relationships and beliefs that may cause an auditor to limit the extent of inquiry, limit disclosure, or slant audit results in any way. Auditors participating in an audit assignment, including those who review the audit work and resulting report, and all others within the organization who can directly influence the outcome of the audit, need to remain free from personal impairments.

8.4.2.2.2. External Impairments. Factors external to the audit organization may restrict the work or interfere with an auditor's ability to form independent and objective opinions and conclusions. External impairments to independence occur when management or employees of the audited entity deter an auditor from acting objectively and exercising professional skepticism. Auditors will report any external impairment to their supervisors. Supervisors will resolve external impairments before

allowing the audit to proceed. If unable to resolve, the external impairment should be reported through each directorate to HQ AFAA/DO for resolution.

8.4.2.2.3. Organizational Impairments. AFAA is considered free of organizational impairments to independence to audit internally and report objectively to Air Force management.

8.4.2.3. Independence Statement. Before performing or assisting on an audit assignment, auditors and supervisors must ensure independence statements are completed certifying the individuals have no relationships and beliefs that might limit the extent of the inquiry, limit disclosure, or slant audit results in any way. An independence statement template is located on the AFAA Home CoP. This requirement extends to all individuals associated with the audit, including specialists (e.g., statisticians and technical experts). Supervisors will resolve impairments before granting auditors approval to start the audit. The auditor/audit manager must file the independence statements for each individual involved in the project in the audit working papers. **Note:** The auditor should generate a "Project Expended Time by Person" Report from the AFAA MIS to ensure independence statements are included in the working papers for all individuals that charged time to the project. In addition, the auditor/audit manager will include an independence statement in the working papers for any individual providing direction as it relates to that project (e.g., a region chief if they provide specific direction related to the objectives, scope, or results of the project), even if the individual didn't charge time to that project.

8.4.3. Due Professional Care. Auditors will exercise due professional care in conducting the audit and in preparing related reports. Exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing tests and procedures for the audit. Recognize, however, that an audit accomplished in accordance with GAGAS will not guarantee the discovery of illegal acts or contingent liabilities. Conversely, the subsequent discovery of illegal acts committed during the audit period does not necessarily mean the auditors' results were inadequate, provided they conducted the audit in accordance with GAGAS. Accordingly, apply the same sound judgment in conducting tests and procedures and in evaluating and reporting audit results.

8.4.4. Quality Control. Audit organizations conducting government audits should have an appropriate internal quality control system in place to provide reasonable assurance the audit organization has adopted and is following applicable auditing standards and has established and is following adequate audit policies and procedures. Audit organizations should also undergo periodic external quality control reviews.

8.4.4.1. AFAA Internal Quality Control System. The AFAA internal quality control system is established in AFAAI 65-105, *Internal Quality Control Review Program*, and consists of supervisory oversight, independent referencing, and internal quality control reviews conducted by HQ AFAA/DOV.

8.4.4.2. External Reviews. Every 3 years, an organization not affiliated with AFAA (either the Naval Audit Service or Army Audit Agency) will perform an external quality control review (also called a peer review) to determine if AFAA's internal quality control system is in place and operating effectively.

8.4.5. Other Considerations. Auditors will issue audit reports to make the information available for timely use by management and other interested parties.

8.4.5.1. Audit reports must be timely. A carefully prepared report is of little value to management if it arrives too late. Therefore, auditors will plan for the timely issuance of the audit report and conduct the audit with this goal in mind.

8.4.5.2. Auditors should process an interim report during the audit identifying significant deficiencies requiring immediate attention. An interim report is not a substitute for a final report. Rather, an interim report alerts officials to matters needing immediate attention and permits management to correct problems before the auditor issues the final report.

**8.5. Standards for Financial Audits.** Financial audits include financial statement audits and financial-related audits. The following paragraphs prescribe standards for financial audit fieldwork and reporting. For financial audits, GAGAS incorporate the AICPA field work and reporting standards and the related statements on auditing standards unless specifically excluded or modified by GAGAS. Auditors should refer to the Yellow Book for additional information on the standards for financial audits. **Note:** The GAO precludes AFAA from auditing and rendering opinions on Air Force financial statements. Consequently, AFAA work in this area is normally limited to financial-related audits.

8.5.1. Field Work Standards. There are three AICPA generally accepted standards of field work: (a) the auditor must adequately plan the work and must properly supervise assistants; (b) the auditor must obtain sufficient understanding of the entity and its environment (to include internal controls) and assess the risk of material misstatement of financial statements; and (c) the auditor must obtain sufficient, appropriate audit evidence to afford a reasonable basis for an opinion. In addition, GAGAS has five additional standards related to: (d) auditor communication during planning; (e) prior audit coverage; (f) detecting material misstatements resulting from violations of provisions of contracts or grants, or from abuse; (g) developing elements of a finding; and (h) audit documentation. The following paragraphs provide additional guidance as it relates to some of these standards:

8.5.1.1. Planning. Auditors will adequately plan audit work and properly supervise assistants. Additionally, auditors will consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures. Materiality is a matter of professional judgment made in light of circumstances involving both quantitative and qualitative considerations.

8.5.1.2. Follow Up. Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. Accordingly, auditors will follow up on known material findings and recommendations from previous audits to determine if management took timely and appropriate corrective actions.

8.5.1.3. Errors, Irregularities, and Illegal Acts. The field work standards for financial audits require that, in determining compliance with laws and regulations, the auditor designs audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the financial statement amounts or the results of financial-related audits. Auditors must be aware of the possibility of illegal acts that could have an indirect and material effect on the

financial statements or results of financial-related audits. Auditors are also responsible for being aware of the characteristics and types of potentially material irregularities possibly associated with the area audited. In this context, the term irregularities means intentional misstatements or omissions of amounts or disclosures in financial statements. The following warning signals should assist the auditor in identifying these potential situations during audit planning or audit testing:

8.5.1.3.1. Difficulty in Obtaining Evidence. This includes difficulty in obtaining audit evidence with respect to unusual or unexplained transactions, incomplete or missing documentation and authorizations, and alterations in documentation or accounts.

8.5.1.3.2. Inadequate Controls. This includes inadequate controls over cash, accounts receivable, or credit cards.

8.5.1.3.3. Unexplained Fluctuations. Unusual or unexplained fluctuations in material account balances, physical inventories, and inventory turnover rates.

8.5.1.3.4. Performance Problems. Encountered performance problems, such as delays or evasive or unreasonable responses to audit inquiries.

8.5.1.3.5. Dispersed Locations. Widely dispersed locations accompanied by highly decentralized management and inadequate reporting systems.

8.5.1.3.6. Electronic Data Processing Weaknesses. Known continuing weaknesses in internal controls over access to computer equipment or electronic data entry devices.

8.5.1.4. Risk Assessment. Field work standards require auditors to assess control risk in financial audits (paragraph 7.5.1). Reference the GAO's *Financial Audit Manual, Volume 1*, Section 260. In addition, the Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit, states: "The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud."

8.5.1.5. Noncompliance. The term noncompliance has a broader meaning than illegal acts. Noncompliance includes not only illegal acts but also violations of provisions of contracts or grant agreements. Auditors will design audits to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. Additionally, auditors may become aware of evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements. In that situation, auditors will apply audit procedures specifically directed to ascertaining if noncompliance has occurred.

8.5.1.6. Internal Controls. Auditors will obtain a sufficient understanding of internal controls to plan audits and determine the nature, timing, and extent of tests to be performed.

8.5.1.7. Working Papers. Auditors will retain a record of their work in the form of working papers. Working papers will contain sufficient information to enable an

experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgments.

#### 8.5.2. Reporting Standards.

8.5.2.1. Statement Presentation. The report will state whether the financial statements are presented in accordance with GAGAS (**Note:** generally accepted accounting principles are incorporated into GAGAS by reference).

8.5.2.2. Consistency. The report will identify circumstances where generally accepted accounting principles were not consistently observed in the current period in relation to the preceding period.

8.5.2.3. Informative Disclosures. Regard informative disclosures in financial statements as reasonably adequate unless otherwise stated in the report.

8.5.2.4. Expression of Opinion. The report will contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that the auditors cannot express an opinion regarding the financial statements. Auditors will state their reasons when they cannot express an overall opinion on the financial statements.

8.5.2.5. Laws, Regulations, and Internal Controls. The report on the financial statements will either (a) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests, or (b) refer to separate reports containing that information. In presenting the results of those tests, auditors will report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls (see paragraph [7.5.2](#)). These responsibilities are in addition to and do not modify auditors' responsibilities under AICPA standards to address the effect irregularities or illegal acts may have on the report on the financial statements, and determine that management officials are adequately informed about irregularities, illegal acts, and reportable conditions.

8.5.2.6. Communication. Auditors will communicate certain information related to the conduct and reporting of the audit to management officials. The communication may be oral or written. If auditors orally communicate the information, they will document the communication in their working papers. If auditors provide written communication, they may use the audit announcement memorandum to convey the information. The intent of the communication, in addition to covering auditors' responsibilities in a financial statement audit, is to help management officials understand the limitations of auditors' responsibilities for testing and reporting on internal controls and compliance. Auditors will communicate the following information to management officials:

8.5.2.6.1. The auditors' responsibilities in a financial statement audit, including their responsibilities for testing and reporting on internal controls and compliance with laws and regulations.

8.5.2.6.2. The nature of any additional testing of internal controls and compliance required by laws and regulations.

8.5.2.7. Reporting on Restatement of Previously Issued Financial Statements. If auditors become aware of new information that might have affected their opinion on previously issued financial statement(s), then the auditors should advise management to determine

the potential effect(s) of the new information on the previously issued financial statement(s) as soon as reasonably possible.

8.5.2.8. Views of Responsible Officials. Auditors should obtain and report the views of responsible officials concerning the audit results.

8.5.2.9. Privileged and Confidential Information. If certain information is prohibited from general disclosure, the audit report will state the nature of the information omitted and the requirement that makes the omission necessary. Reference paragraph [19.3.6](#)

8.5.2.10. Report Distribution. Auditors will submit written audit reports to appropriate management officials unless legal restrictions prevent it. Also, send copies of the reports to other officials who have legal oversight authority, officials responsible for acting on audit findings and recommendations, and others authorized to receive the reports. Unless restricted by law or regulation, make copies available for public inspection.

**8.6. Standards for Performance Audits.** The following paragraphs prescribe standards of fieldwork and reporting for performance audits. Note that auditors may conduct performance audits in financial areas. When this occurs, the performance standards apply to the audit. Auditors should refer to the Yellow Book for additional information on the standards for performance audits.

8.6.1. Field Work Standards. The concepts of reasonable assurance, significance, and audit risk form a framework for applying these field work standards and should be considered when applying performance audits. There are four field work standards addressed in GAGAS related to planning, supervision, evidence, and documentation.

8.6.1.1. Planning. Auditors will adequately plan audit work. In planning, auditors will define the audit objectives and the scope and methodology to achieve those objectives. The objectives are what the audit is to accomplish. Scope is the boundary of the audit—the period of time and number of locations covered. Methodology describes the audit work necessary to provide sufficient, appropriate evidence to achieve the audit objectives. In planning a performance audit, auditors will:

8.6.1.1.1. Consider significance in planning, performing, and reporting. The significance of a matter is its relative importance to the audit objectives and potential users of the audit report. Qualitative, as well as quantitative, factors are important in determining significance.

8.6.1.1.2. Obtain an understanding of the program. This step helps to assess the significance of possible audit objectives and the feasibility of achieving them.

8.6.1.1.3. Consider risks due to fraud and develop methodology and procedures for detecting significant illegal acts or violations of regulatory requirements.

8.6.1.1.4. Obtain an understanding of internal controls as they relate to the audit objectives and scope (paragraph [7.6.1.1](#)) and obtain sufficient, appropriate evidence to support judgments about the significant controls.

8.6.1.1.5. Design the audit to provide reasonable assurance about compliance with laws, regulations, and other requirements when they are significant to the audit objectives and scope. Auditors should be aware of the characteristics and types of potentially material irregularities associated with the area audited and be alert to

situations or transactions that could indicate illegal acts or abuse. Warning signals (paragraphs [8.5.1.3.1](#) through [8.5.1.3.6](#)) will assist the auditor in identifying these potential situations during audit planning or audit testing.

8.6.1.1.6. Identify criteria needed to evaluate matters subject to audit.

8.6.1.1.7. Identify significant findings and recommendations from previous audits that could affect the current audit objectives.

8.6.1.1.8. Identify potential data sources for use as audit evidence and consider the validity and reliability of these data.

8.6.1.1.9. Consider whether the work of other auditors and experts satisfies some of the audit objectives.

8.6.1.1.10. Provide sufficient staff and other resources to do the audit.

8.6.1.1.11. Prepare a written audit plan.

8.6.1.2. Supervision. Supervision involves directing the efforts of auditors involved in the audit to verify they accomplish the audit objectives. Elements of supervision include instructing staff members, keeping informed of significant problems encountered, reviewing the work performed, and providing effective on-the-job training. Supervisors will ensure auditors clearly understand the what, why, and how of each assignment.

8.6.1.3. Evidence. Auditors will obtain sufficient, appropriate evidence to afford a reasonable basis for their findings and conclusions. Auditors will document their work in the form of working papers. Working papers will contain sufficient information to enable an experienced auditor with no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

8.6.1.4. Documentation. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained, and the conclusions reached. Under GAGAS, auditors should document the following:

8.6.1.4.1. The objectives, scope, and methodology of the audit.

8.6.1.4.2. The work performed to support significant judgments and conclusions, including descriptions of transactions and records examined.

8.6.1.4.3. Evidence of supervisory review, before the report is issued, of the work performed that supports the audit results, conclusions, and recommendations.

8.6.2. Reporting Standards. The reporting standards for performance audits relate to the form of the report, the report contents, and report issuance, and distribution.

8.6.2.1. Form. Auditors will prepare written audit reports communicating the results of each audit (see paragraph [7.6.2](#)).

8.6.2.1.1. Written reports (a) communicate the results of audits to officials at all levels, (b) make the results less susceptible to misunderstanding, (c) make the results available for public inspection, and (d) facilitate follow-up actions to determine if management took appropriate corrective actions.

8.6.2.1.2. When terminating an audit prior to completion, auditors will notify the auditee and explain the reason for terminating the audit.

8.6.2.1.3. If, after the report is issued, the auditor discovers they did not have sufficient, appropriate evidence to support the reported results, the auditor should rescind the audit report and communicate with the appropriate management officials so they do not continue to rely on unsupported audit results. The audit team should then determine whether to conduct additional audit work necessary to reissue the report with revised audit results.

8.6.2.2. Contents. Auditors should prepare audit reports that contain the objectives, scope, and methodology of the audit; the audit results; a statement about compliance with GAGAS; a summary of the views of responsible officials; and, if applicable, the nature of any confidential or sensitive information omitted.

8.6.2.2.1. Objectives, Scope, and Methodology. Readers need to know the objectives of the audit, as well as the audit scope and methodology, to understand the purpose of the audit, judge the merits of the audit and reported audit work, and understand significant limitations. Auditors will report the audit objectives, scope, and methodology.

8.6.2.2.1.1. In reporting the audit's objectives, auditors will explain the audit's purpose and state what the audit accomplished. To preclude misunderstanding in cases of particularly limited objectives, where readers may infer broader objectives, it may be necessary to state objectives not pursued.

8.6.2.2.1.2. In reporting the audit scope, auditors will describe the depth and coverage of work conducted to accomplish the audit objectives. To avoid misunderstanding by the reader concerning work performed and not performed to achieve the audit objectives, the report should clearly describe the scope of work accomplished and any limitations.

8.6.2.2.1.3. To report the methodology used, auditors will clearly explain the evidence gathering and analysis techniques used.

8.6.2.2.2. Audit Results. Auditors should present sufficient, appropriate evidence to support the audit results in relation to the audit objectives. Auditors will report significant audit conclusions, findings, and recommendations.

8.6.2.2.2.1. Auditors will report conclusions when called for by the audit objectives. Conclusions are logical inferences about the program based on the auditors' findings. Be specific. Do not allow readers to infer conclusions. The strength of the auditors' conclusions depends on the persuasiveness of the evidence supporting the findings and the convincingness of the logic used to formulate the conclusions.

8.6.2.2.2.2. Auditors will report significant findings developed in response to each audit objective. Auditors will separately communicate to the auditee, preferably in writing, insignificant findings not included in the audit report. Auditors will document all communications of audit results in their working papers. Auditors should report deficiencies in internal control that are significant



in the context of the audit objectives, all instances of fraud or illegal acts unless they are inconsequential within the context of the audit objectives, significant violations of provisions of contracts or grants, and significant abuse that have occurred or are likely to occur.

8.6.2.2.2.3. Recommendations. Auditors will report recommendations for actions to correct problem areas and improve operations. Auditors will:

8.6.2.2.2.3.1. Include recommendations when audit findings substantiate the potential for significant improvement in operations and performance. Auditors will make recommendations to effect compliance and improve internal controls when they note significant instances of noncompliance or find significant control weaknesses. Also, auditors will report the status of uncorrected significant findings and recommendations from prior audits that affect the objectives of the current audit.

8.6.2.2.2.3.2. Provide constructive recommendations to encourage improvements in the conduct of programs. Recommendations are most constructive when directed at resolving the cause of problems, action oriented and specific, addressed to parties that have the authority to act, feasible, and, to the extent practical, cost-effective.

8.6.2.2.3. Statement on Auditing Standards. Auditors will report they performed the audit in accordance with GAGAS. Auditors will qualify the statement in situations where they did not follow an applicable standard. In these situations, auditors will report in the report's scope section the applicable standard not followed, the reasons for not following the standard, and how not following the standard affected the audit results.

8.6.2.2.4. Views of Responsible Officials. Auditors will report the views of responsible officials of the audited program concerning auditors' conclusions, findings, and recommendations, as well as corrections planned.

8.6.2.3. Report Issuance and Distribution. The audit organization will submit written audit reports to the appropriate officials of the organizations requiring or arranging for the audit. The audit organization will also send copies of the reports to other officials having legal oversight authority or responsibility for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, make copies available for public inspection.

## Chapter 9

### EVIDENCE

**9.1. Overview.** Government auditing standards require auditors to record their work in formal working papers. The working papers should contain sufficient, appropriate evidence to afford a reasonable basis for the auditors' findings and conclusions. The evidence, in total, must be sufficient to enable an experienced auditor having no previous connection with the audit to ascertain from the working papers the evidence that supports the auditor's significant conclusions and judgments.

**9.2. Types of Evidence.** There are four types of evidence: physical, documentary, testimonial, and analytical.

9.2.1. Physical Evidence. Auditors obtain physical evidence by direct inspection or observation of people, property, or events. Auditors document such evidence through memoranda summarizing their inspections or observations, photographs, charts, maps, or actual samples.

9.2.2. Documentary Evidence. Documentary evidence consists of created information such as letters, contracts, accounting records, computer data and output products, invoices, and management information on performance. Auditors may consider any written or printed material reviewed during the audit as documentary evidence.

9.2.3. Testimonial Evidence. Auditors obtain testimonial evidence through inquiries, interviews, or questionnaires. When possible, auditors will corroborate any testimonial evidence that is critical to the audit by checking records or performing physical tests. Auditors must not base audit opinions on the personal opinions of others or on hearsay. When using testimonial evidence, adhere to the following rules of evidence.

9.2.3.1. Expert Testimony Rule. This rule allows the audit team to use the opinions of recognized experts as evidence. Such opinions are admissible and usually confirm or clarify known or suspected conditions or circumstances. The question of who may provide expert testimony for audit purposes is important and depends on a number of factors such as the individual's area of expertise, education, experience, etc. A supply systems branch chief may provide suitable expertise for supply document processing problems, whereas an AFOSI agent may be a more suitable expert for problems related to fraud.

9.2.3.2. Opinion Rule. This rule allows testimony as evidence only if it is based on fact concerning what the witness heard or saw. Never use personal opinions of non-experts as a basis for audit conclusions.

9.2.3.3. Hearsay Rule. Hearsay involves a situation in which one individual relates the statement of a second individual concerning what a third party said or did. Hearsay is not admissible as evidence for an auditor's findings and conclusions. However, hearsay can be the basis for further audit work.

9.2.4. Analytical Evidence. Analytical evidence includes computations, comparisons, models, projections, and separation of information into components.

9.2.5. Evidence Obtained From the Internet. Use the same principles for evidence extracted from the Internet as you would for evidence obtained through traditional means. For example, if the auditor obtains someone's opinion via the Internet, treat it as testimonial evidence and apply the rules of paragraph 9.2.3. If the auditor obtains a GAO report from the GAO web site, treat it as documentary evidence just as if the hard copy was obtained from the GAO. If the auditor obtains DoD directive guidance from a DoD web site, treat it as documentary evidence but confirm the directive is the latest version.

**9.3. Tests for Evidence.** Procedures used to obtain evidence are audit tests. The three basic types of procedures are:

9.3.1. Confirmations. These tests confirm previously identified conditions such as the number of parts on hand or the amount of outstanding travel advances. Make confirmations by direct observation (e.g., taking a physical inventory) or through inquiry (e.g., sending a confirmation memorandum).

9.3.2. Comparisons. These tests match or relate two or more sets of information, such as data in payroll and personnel systems or base and MAJCOM records. Compare data sets or data and other criteria.

9.3.3. Analyses. These procedures identify patterns, trends, or groupings within or between the data gathered, such as overtime worked by pay grade or supply backorders by vendor. Analysis is the logical classifying or correlation of information to identify a condition.

**9.4. Tests of Evidence.** The sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Sufficient, appropriate evidence includes the following:

9.4.1. Sufficiency. Evidence is sufficient if there is enough to support the auditors' findings. Determining the sufficiency of evidence requires professional judgment. It may be helpful to ask such questions as: Is there enough evidence to persuade a reasonable person of the validity of the findings? When appropriate, establish sufficiency by using statistical methods.

9.4.2. Competent. Evidence is competent to the extent that it is consistent with fact (that is, evidence is competent if it is valid). In determining the competence of evidence, carefully consider whether there is any reason to doubt its validity or completeness. If there is, obtain additional evidence or verify the original evidence. The following presumptions are useful in judging the competence of evidence; however, do not consider these presumptions sufficient in themselves to determine competence.

9.4.2.1. Independent Source. Evidence obtained from a credible third party is generally more competent than evidence secured from the auditee.

9.4.2.2. Internal Controls. Evidence developed under an effective system of internal controls is more competent than evidence obtained where such controls are weak or nonexistent.

9.4.2.3. Direct Methods. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly.

9.4.2.4. Original Documents. Original documents provide more competent evidence than copies. (If possible, auditors will scan or make copies of the original documents for the working papers.)

9.4.2.5. Freely Spoken. Evidence obtained under conditions where persons may speak freely is more competent than evidence obtained under compromising conditions (for example, persons unable to speak freely because of intimidation).

9.4.2.6. Unbiased Individual. Evidence obtained from an unbiased individual or an individual who has complete knowledge about the area is more competent than evidence obtained from a biased individual or an individual who has only partial knowledge about the area.

9.4.3. Relevance. Evidence used to support a finding is relevant if it has a logical, sensible relationship to that finding.

**9.5. Written Representations.** Auditors may find it useful to obtain from management officials written representations concerning the competence of the evidence they obtain. Written representations ordinarily confirm oral representations given to auditors, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.

**9.6. Computer-Processed Data Reliability.** Auditors assess computer-processed data reliability to provide reasonable assurance that data used are valid and reliable. The auditor will respond to the procedure step for Computer-Processed Data to document the data reliability assessment (or reasons for not performing the assessment as well as explain the effect on the audit results). At a minimum, the data reliability assessment will indicate (a) name of the computer system or database from which auditors extracted data, (b) extent of data testing (types of tests) performed to determine the data's reliability, (c) results of tests conducted to assess data reliability, and (d) auditor conclusion on data reliability. Hyperlink the data reliability assessment to the supporting working papers. In instances where audit work supported a CDA and the data reliability assessment was performed by the audit manager, the audit manager should provide the application locations with a data reliability assessment statement. The local auditor's procedure step should indicate that the AM accomplished the assessment and contain a link to the audit manager's assessment document. The two types of data testing methods are auditing around the computer (manual) and auditing with the computer (automated). While the auditor may use either method, or a combination of both, the manual method is the most common method used to test data reliability.

9.6.1. **Manual Method.** Use the manual method when a visible audit trail is available to verify computer processing results. To test data reliability, (a) confirm computer-processed data with product users; (b) conduct physical counts and inspections; (c) review output listings for completeness, obvious errors, and reasonableness of values; (d) trace source documents (e.g., purchase or receiving documents) to computer output; (e) recalculate computations; and (f) develop additional tests deemed necessary to validate data reliability.

9.6.2. **Automated Method.** The automated method uses computer-programmed tests to measure data reliability. The auditor should take advantage of any error-checking options available and include these in the audit program. The auditor should use various footing and cross-footing techniques to ensure accuracy and identify errors when the data are entered into a spreadsheet. Use range and reasonableness checks to identify obvious errors in data

accuracy. In addition, many data downloading programs contain built-in editing options. Finally, auditors can develop test transactions to determine whether the computer processes the transaction according to system specifications. Consult a local computer specialist to assist in developing appropriate tests. For additional information on this method, refer to GAO-09-680G, *Assessing the Reliability of Computer-Processed Data*.

9.6.3. Sufficient testing will be accomplished to allow the auditor to reach one of the following conclusions: the data were reliable, the data were unreliable but still usable, or the data were unreliable and not usable. Reference Attachment 3 for examples of computer-processed data reliability statement language that can be used in the audit report.

## Chapter 10

### AUDIT PLANNING

**10.1. Overview.** AFAA utilizes a continuous planning process that balances audit requirements with audit resources. The process permits flexibility and timely adjustment of audit requirements due to changes in Air Force policy and emphasis. This chapter provides guidance for preparing audit plans and scheduling audits.

**10.2. Centrally Directed Audit Planning.** CDAs evaluate a subject from a MAJCOM or Air Force perspective and at one or more locations with significant investment, sensitivity, or substantial impact on Air Force operational capabilities. CDA supervisory personnel (associate directors and program managers) document their audit plans in the AFAA Fiscal Year Audit Plan. To provide a strategic view, AFAA needs to consider and use Air Force strategic plans (e.g., Combat Air Forces, Global Strike Command, Space Command, Science and Technology, Education and Training) as the starting point in developing the annual audit plan. The audit plan is approved by SAF/AG and updated at the 6-month interval.

10.2.1. HQ AFAA/DO Responsibilities. HQ AFAA/DO will:

10.2.1.1. Formulate and develop, in consonance with the line directorates, comprehensive guidance for accomplishing 6-month updates to the AFAA Fiscal Year Audit Plan.

10.2.1.2. Monitor AFAA goals and assess the adequacy of planned coverage.

10.2.1.3. Publish the AFAA Fiscal Year Audit Plan and 6-month update, listing audit subjects by broad functional category.

10.2.2. CDA Division Responsibilities. CDA divisions will:

10.2.2.1. Provide HQ AFAA/DOO copies of all audit requests received from Air Staff, Secretariat, or MAJCOM elements along with copies of any correspondence acknowledging the request and either accepting or rejecting the request.

10.2.2.2. Incorporate and use strategic plans in selecting and prioritizing audit plan topics.

10.2.2.3. Establish a program to perform issue and subject identification research on an ongoing basis. Program managers are primarily responsible for issue and subject identification. They will document research work accomplished and retain the documentation in division research files. In addition, audit managers will document potential audit issues and subjects they identify during the CDA process.

10.2.2.4. Maintain division research files that include documentation of work accomplished during issue and subject identification research. The research files should also include audit requests and suggestions received from Air Force management and internal AFAA elements. The division research files provide a basis for the next audit plan revision and for individual audit starts.

10.2.2.5. Develop assigned portions of the AFAA Fiscal Year Audit Plan by specifying planned audit subjects and identifying the status of ongoing audit projects.

10.2.2.6. Include audits in the AFAA Fiscal Year Audit Plan to follow up on prior audits that identified (a) PMB exceeding \$5 million; (b) major changes to policies, concepts, and procedures; and (c) high priority issues of current significance in the Air Force. **Note:** These audit subjects are discretionary based on the workload and priorities of the applicable directorate.

10.2.3. Scheduling CDA Subjects. Unless higher priority audits are identified during the year, associate directors should normally select audits from the most recent plan. Auditor General approval is required before committing resources to subjects not included in the latest plan. Reference AFAAI 65-102, Chapter 1, regarding specific guidance related to unscheduled CDAs.

**10.3. Installation-Level Audit Planning.** Installation-level audits evaluate a subject from a local perspective. Installation-level audits target subjects with significant investment, sensitivity, or impact on local operational capabilities. The annual audit plan outlines AAO goals and objectives and represents the basis for allocating resources among the various types of audits. Installation-level supervisors prepare audit plans annually following region direction and the guidance below.

10.3.1. Goals and Objectives. AAO chiefs establish performance goals and objectives annually. These goals and objectives represent targets for the audit effort and establish each AAO's contribution to the overall Agency goals and objectives. Region chiefs review and approve the goals and objectives within their organization.

10.3.2. Risk-Based Planning. Installation-level supervisors must use a risk-based planning approach to develop their individual plans. The risk-based planning approach described below is suggested.

10.3.2.1. Develop audit suggestions throughout the year following the guidance in paragraph [10.3.3](#)

10.3.2.2. Evaluate the potential audit subjects in terms of the nine risk assessment factors described in Attachment 2.

10.3.2.3. Calculate a risk assessment score for each potential audit subject using the Risk-Based Planning Model (spreadsheet) found on the AFAA Home CoP.

10.3.2.4. Rank audit subjects by their risk assessment score.

10.3.2.5. Select audit subjects and prepare the annual plan.

10.3.3. Identifying Potential Audit Subjects. Installation-level audit subjects are identified in a variety of ways.

10.3.3.1. Commander Input. AAO and team chiefs will periodically meet with commanders or designated representatives to discuss:

10.3.3.1.1. Specific initiatives that pertain to the auditee and gain a fresh perspective on issues important to the commander.

10.3.3.1.2. Current audit plans and request suggestions for future audit plans to increase the effectiveness of audit service. Commanders' desires determine the method and frequency for providing planning information. Identify sensitive audits

to the commander with a request not to advise operating officials of plans involving a surprise element.

10.3.3.2. Audit Needs. Auditors and team chiefs:

10.3.3.2.1. Identify potential problems (“audit needs”) from a variety of sources including observations outside the scope of current audits, discussions with management officials and operating personnel, reviews of other audit and inspection reports, personal experience, organization mission plans, and intuition. **Note:** For CDA audit need suggestions, see paragraph 10.4

10.3.3.2.2. Document audit needs to assist in developing audit plans. Audit needs should identify the DoD category, activity, unit, and installation; the problem, its significance, and the recommended audit approach; the disclosure source; and the estimated required staff hours. A suggested format for audit needs is on the AFAA Home CoP.

10.3.3.2.3. Team chiefs maintain a file of audit need documents and an informal log to record the date the auditor prepared the audit need, the activity involved, the unit, a descriptive title, and the disposition (included or not included in the plan).

10.3.3.3. Follow-up Audits. Include follow-up audits in AAO annual plans following the guidance in AFAAI 65-101, Chapter 5.

10.3.3.4. Air Reserve Forces. Installation-level supervisors will plan an appropriate share of audit coverage for ANG and Air Force Reserve forces. They are vital elements of the Air Force total force policy.

10.3.3.5. Nonappropriated Fund Instrumentalities (NAFIs). All NAFIs are subject to audit by AFAA auditors or public accountants. Team chiefs may schedule audits of NAFI category A (mission sustaining), category B (basic community support), and category C (revenue-generating) activities. AFAA/SP is responsible for selecting, planning, and scheduling CDA coverage of NAFIs. In addition, the Air Force Services Agency contracts for and schedules public accountant audits of NAFI activities. While AFAA does not actively participate in public accountant audits, team chiefs will:

10.3.3.5.1. Attend entrance and exit briefings.

10.3.3.5.2. Follow up on public accountant report recommendations to determine whether significant problems were corrected.

10.3.3.6. Mission Directives. Office and team chiefs will review the Air Force “mission directives” for the organizations for which they have audit responsibility. These directives describe mission, organization, and responsibilities. **Note:** Mission directives can be found on the Air Force e-publishing home page.

10.3.4. Scheduling Installation-Level Audit Subjects. The team chief commits to a particular audit because good reason to do the audit was identified and documented during audit plan development. In selecting subjects, the team chief considers all available data, including data gathered for risk-based planning.

10.3.4.1. Planned Audits. Unless higher priority subjects arise during the year, team chiefs should normally select subjects from the annual audit plan. To the extent possible,



higher risk subjects should be selected first. Team chiefs will coordinate all audit assignments with the office chief.

10.3.4.2. Audits Similar to CDAs. Installation-level supervisors will not schedule audits to evaluate local issues similar to those of planned and ongoing CDAs or those completed within the past year.

10.3.4.2.1. Prior to assigning an audit project, the team chief will review the AFAA Fiscal Year Audit Plan to ensure the audit project will not conflict with a scheduled CDA. Team chiefs should also review CDA reports listed on the AFAA Home CoP to identify similar audits completed in the past year. The AFAA MIS Quick Look also provides an “Audit Search” function that will assist in identifying completed and ongoing audits.

10.3.4.2.2. If a planned installation-level audit conflicts with a recently completed, ongoing or planned CDA, the team chief will contact the audit control point (normally the associate director or program manager) prior to starting the installation-level project and obtain approval to conduct the audit. The team chief will document in the project working paper files all efforts to identify similar CDAs and, if applicable, obtain audit control point approval.

10.3.4.3. Special Situations.

10.3.4.3.1. Security Assistance Program (SAP) Audits. AFAA/QLM is the AFAA focal point for all SAP audits. Therefore, all AAO chiefs must coordinate with AFAA/QLM before accomplishing any locally scheduled SAP audits. This coordination reduces duplication and provides a unified audit approach. The AFAA has audit responsibility for SAP activities at HQ USAF and MAJCOM activities and field installations primarily involved in or contributing to the direct support of the SAP. This includes financial management, foreign military sales, grant aid, systems acquisitions, logistics support, or training.

10.3.4.3.2. Contingency Fund Audits. Contingency funds are exempt from locally initiated audit coverage. These funds are audited periodically under CDA control. AAO chiefs will advise AFAA/FSC of any suspected problems in the contingency fund area.

10.3.4.3.3. Request Audits. Team chiefs will schedule audit requests to start as soon as practical. Advise the requesting commander of the approximate start date. If the team chief cannot honor a request, coordinate with the office chief before notifying the commander.

**10.4. Installation-Suggested CDA Subjects.** The audit subjects that AAOs suggest for CDA coverage should have the potential to appraise significant managerial activities with Air Force-wide impact. AAOs derive CDA subjects from both internal and external sources. Internal sources include information identified and developed in installation-level audit reports, working papers, or other documents. External sources include material extracted from inspectors general reports and briefs, GAO reports, Army and Navy audit reports, and other publications.

10.4.1. Purpose. The CDA suggestion program provides a continuous source of audit topics for Air Force-wide audit application. The primary benefits of the program to both the CDA

process and the installation audit community are to provide an increased awareness of the various problems confronting Air Force management today and a training mechanism for future audit management personnel.

10.4.2. AAO Responsibilities. All AFAA elements may submit suggested audit topics; however, AAOs are the most common sources of input because of their daily contact with installation and MAJCOM personnel. Team chiefs will:

10.4.2.1. Continually review available information sources to identify problem areas having CDA potential.

10.4.2.2. Encourage staff auditors to identify and document potential problem areas having CDA potential.

10.4.2.3. Continually solicit comments from installation personnel concerning problem areas having application at other Air Force bases.

10.4.2.4. Develop and document suggested audit subjects using the audit need template located on the AFAA Home CoP. The auditor and team chief will give special attention to full development of the "Potential Audit Results (Condition/Effect)" as this is the most significant factor in determining if the topic warrants CDA coverage.

10.4.2.5. Transmit suggestions to the CDA directorate that has responsibility for the DoD category covered by the suggestion. The transmittal document will indicate the submission is an audit suggestion submitted in accordance with AFAAI 65-103, Chapter 10. Since the CDA directorates are responsible for tracking CDA suggestions, the suggestions should not be sent directly to the divisions. Send a courtesy copy of all submitted suggestions to HQ AFAA/DOO and the appropriate region.

10.4.3. CDA Directorate Responsibilities. CDA directorates will:

10.4.3.1. Account for and promptly evaluate the materiality and CDA potential of each suggestion received.

10.4.3.2. As a courtesy, e-mail the suggester (with copies to the suggester's region and directorate and HQ AFAA/DOO) of the evaluation results and the planned disposition of the suggestion. The evaluation should be completed and forwarded within 60 days of the date the suggestion was received.

10.4.3.3. Schedule preliminary research (subject to workload) for those suggestions determined to have audit potential and which are compatible with existing audit issues.

## Chapter 11

### COMPUTER ASSISTED AUDITING TOOLS AND TECHNIQUES AND SAMPLING

**11.1. Overview.** To make efficient use of audit resources, auditors often rely on sampling techniques to accomplish audit objectives. In other cases, auditors use computer assisted auditing tools and techniques (CAATTs) and obtain a 100 percent data download to draw conclusions for the entire population. By reviewing the entire population, auditors significantly enhance their ability to identify the existence of unusual transactions and events, amounts, ratios, and trends reportable to management. However, auditors need to use caution when comparing (i.e., matching) data from two or more systems that contain *Privacy Act* information. This chapter provides guidance for audit sampling, using CAATTs, and computer matching. Auditors will document in the audit working papers the methodology, computations, and inferences made from CAATTs or statistical samples used in the audit.

**11.2. Computer Assisted Auditing Tools and Techniques.** CAATTs is the term used to describe computer inquiry techniques or advanced tools to analyze, extract, or manipulate data obtained in electronic form from databases, reports, or other electronic media. Computer inquiries are computer programs or routines that extract data from electronic data processing storage.

11.2.1. CAATTs Techniques. CAATTs uses analytical software packages (e.g., ACL, formerly known as Audit Command Language) or the advanced tools and features of a database or worksheet program (e.g., Access or Excel) to retrieve and analyze data to meet audit objectives. Examples include: aged accounts, trend analysis, mean dispersion analysis, ratio analysis, period-to-period comparisons, stratification, duplicate analysis, and regression or correlation analysis. CAATTs can also be used to compare the data in two or more systems (computer matching). **Note:** Simple functions such as Auto Filter, Sort, Sum, Average, and Count are not advanced CAATTs.

11.2.1.1. Requesting Data. To obtain computer inquiries, auditors will request data from the client in an electronic format (a standard report on disk or special retrieval/download) or, when possible, arrange for access to the client's database.

11.2.1.2. Verifying and Validating Data. Before proceeding to analyze the data, auditors will verify and validate the propriety, accuracy, and logic of the data to provide reasonable assurance the results of data analysis are reliable.

11.2.2. CAATTs Requirements. To the extent possible, auditors will use CAATTs to expand the depth of reviews and assist in the evaluation of audit results.

11.2.2.1. Planning Phase. During the planning phase of each audit, the auditor will determine whether CAATTs can be used to support the objectives of the audit. When determined feasible, auditors will design audits to use CAATTs to improve the value of audit results to management.

11.2.2.2. Report Writing. When auditors use CAATTs, they need to provide the following information in the audit scope section: tools used; depth of data selected for review; criteria used for initial selections, criteria used to narrow down the initial selection (if applicable); and techniques used to select, analyze, and evaluate the data.

The auditors will describe the specific software used and what steps were taken to manipulate the data to obtain the desired results. The narrative should be in sufficient detail to allow a knowledgeable auditor to re-accomplish the process and achieve the same results.

**11.3. Audit Sampling.** Audit sampling is the application of an audit procedure or test to less than 100 percent of a group of items. Before selecting a sampling method, the auditor must evaluate the audit objectives and determine if sample results will help meet those objectives. Additionally, auditors must determine if time and cost savings from using a sample will offset the uncertainty in drawing conclusions and rendering an opinion based on sample results.

**11.3.1. Responsibilities.**

11.3.1.1. AFAA Statisticians. AFAA statisticians provide AFAA audit personnel with sampling guidance, including general guidance on sampling methods, and assist in designing and interpreting specific statistical sampling plans.

11.3.1.2. Auditors. Audit personnel must determine the most appropriate sampling method for achieving the audit objectives. Each audit program must clearly indicate the sample selection method.

**11.3.2. Sampling.** Whether using a statistical or non-statistical sample, auditors must document in the working papers the sample selection criteria and methodology. Also, when using statistical sampling, auditors must document the methodology for projecting audit sample test results to the total population.

11.3.2.1. Statistical Sampling. Statistical sampling is appropriate when examining items for measurement of characteristics (attributes or variables). Auditors may project the results of a statistical sample to an entire population or universe with a calculated degree of assurance. The major disadvantage of statistical sampling is the initial planning time required to characterize the population of interest, number the population, and determine an anticipated error rate. **Note:** If various samples or sampling methods were used to achieve the audit objectives and there are deficient conditions related to different samples, include the related sample data with the applicable condition provided in the finding. AFAA statisticians may help develop this information. In this case, include the statistician's technical report in the audit working papers along with any other notes or computations.

11.3.2.1.1. Auditors will contact AFAA statisticians as early in the audit cycle as possible for guidance in designing statistical sampling plans.

11.3.2.1.2. E-Stats is an internally developed computer program that is available for auditors use in providing random numbers, performing various statistical calculations on samples (such as the mean, standard deviation, error rate, and confidence levels), and creating random sample extracts from text files. This program is located on the AFAA Home CoP.

11.3.2.2. Non-Statistical Sampling. For non-statistical samples, identify the sample size, what was sampled (line items, units, transactions, etc.), dollar value of the sample size (if applicable), and time period relating to the universe from which the sample was selected. Also, if the non-statistical sample includes only data with special characteristics or within

certain parameters, identify the characteristics or parameters. (Although not mandatory for non-statistical sampling, identify the size of the universe if determinable with minimum effort.) Non-statistical sampling is appropriate when testing compliance with internal controls, performing test checks, or determining the integrity of procedures. Auditors base non-statistical samples on professional judgment and usually select only a few items. The major disadvantage of non-statistical sampling is the auditor cannot project the extent or magnitude of any problems identified to the untested population or universe.

11.3.2.3. Report Writing. When auditors use sampling, they need to disclose the following in the audit report: sample parameters (number of line items, units, dollar values, transactions, etc.); sample size and time period covered by the sample, sampling plan or method; and, for non-statistical samples, the criteria for selecting sample items. Further, auditors should indicate how the sample was used (e.g., to estimate a PMB or error rate or provide an overall assessment about an entity).

**11.4. Computer Matching and the *Privacy Act*.** The *Privacy Act of 1974* (5 U.S.C. Section 522a), as amended by the *Computer Matching and Privacy Protection Act* of 1988 (Public Law 100-503) and OMB Circular A-130, Appendix I, *Federal Agency Responsibilities for Maintaining Records About Individuals*, cover computer-matching programs that electronically compare records from two or more automated government systems. When two or more computer systems are matched, and at least two of the systems contain *Privacy Act* information, the following must be considered:

11.4.1. Computer matching is prohibited when the purpose is to:

11.4.1.1. Establish or verify the eligibility of individuals to receive cash or in-kind payments under a federal benefits program.

11.4.1.2. Recoup payments or delinquent debts under federal benefits programs.

11.4.1.3. Take any financial, personnel, disciplinary, or other adverse action against federal personnel.

11.4.2. Computer matching is permitted when the purpose is to:

11.4.2.1. Produce aggregate statistical data without any personal identifiers.

11.4.2.2. Support any research or statistical project.

11.4.2.3. Gather data for routine administrative purposes, including administrative matches conducted as part of normal accounting or auditing control, as long as the results are not specifically intended to result in adverse action against Federal Government personnel.

## Chapter 12

### RECOMMENDING CHANGES TO AIR FORCE DIRECTIVES

**12.1. Overview.** Auditors and audit managers will follow the guidance in this chapter when recommending changes to Air Force or MAJCOM directives arising from audit-identified discrepancies or conflicts.

#### **12.2. Responsibilities for Air Force Directives.**

12.2.1. Auditors and Audit Managers. Report directive discrepancies to the region chief/associate director through the team and office chief/program manager. **Note:** Auditors will report discrepancies discovered during the conduct of CDAs directly to the audit manager via the CDAP Response Sheet.

12.2.2. Region Chiefs and Associate Directors. Evaluate proposed changes and forward only those meriting further consideration to HQ AFAA/DOO. Include in the transmittal memorandum a description of the directive weakness, its effect on operations, and recommended changes. Also, provide the number, date, and title of any audit report resulting from audit work that led to identifying the directive deficiency. Provide the originating office and applicable directorate a copy of the written evaluation.

12.2.3. HQ AFAA/DOO Responsibilities. SAF/AGA will process directive discrepancies with HQ USAF.

12.2.3.1. For significant recommended changes discovered at installation level, SAF/AGA will coordinate with the applicable CDA directorate before contacting the HQ USAF OPR.

12.2.3.2. With concurrence of the CDA directorate, SAF/AGA will conduct an informal change coordination with the appropriate HQ USAF OPR.

12.2.3.2.1. If able to obtain OPR agreement with the recommended change, SAF/AGA will document final actions and suspense all agreed-to changes for follow-up to ensure they are published in a subsequent update to the applicable directive.

12.2.3.2.2. If the OPR adequately considers the recommendation but does not agree to take action, SAF/AGA will evaluate the OPR position and determine whether or not to elevate the matter for resolution. If SAF/AGA decides to elevate the matter, SAF/AGA will process a formal directive change request, through HQ AFAA/DO, for Auditor General signature elevating the matter to senior management for resolution.

12.2.3.3. SAF/AGA advises, in writing, all parties concerned of final action resulting from recommended changes.

#### **12.3. Responsibilities for Major Command Directives.**

12.3.1. AAOs. Auditors will submit significant conflicts between HQ USAF and MAJCOM directives to their region. Identify the directives involved and the specific sections that appear to be in conflict. Verbally discuss less significant deficiencies with installation-level operating personnel and suggest they elevate deficiencies through their own command

channels. If the installation-level report cites conflicts between Air Force and MAJCOM directives as the cause for a deficiency, the report will include a comment that this conflict has been elevated for resolution.

12.3.2. Regions. Region chiefs will review and forward only those recommended changes meriting further consideration to the applicable AFAA representative. Send a copy of the transmittal to the originating AAO, applicable directorate, and HQ AFAA/DOO.

12.3.3. AFAA Representatives. Determine whether the MAJCOM obtained HQ USAF approval for the deviation. For unapproved deviations, request MAJCOM officials either obtain HQ USAF approval or eliminate the conflict. As appropriate, issue a memorandum to the MAJCOM documenting efforts to address the conflict. Advise the originating AAO, appropriate region and directorate, and HQ AFAA/DOO of final resolution.

## Chapter 13

### REQUEST AUDITS

**13.1. Overview.** This chapter provides guidance on approving, coordinating, and conducting request audits. HQ USAF officials and commanders at all levels (MAJCOM, center, wing or equivalent, group, and tenant) have authority to request audits. AFAA personnel should be receptive to commanders' requests for audit service to the maximum extent practical within the guidelines of this chapter. All requests for audits must be in writing.

#### **13.2. Installation-Level Request Audits.**

13.2.1. Request Approval Authority. Except as indicated in paragraph [13.2.1.2](#), team chiefs, in coordination with the office chief, have the authority to approve audit requests.

13.2.1.1. Approve audit requests subject to the following criteria:

13.2.1.1.1. The audit request must demonstrate clearly defined problems.

13.2.1.1.2. The AFAA must have audit authority and responsibility for the activity requesting service.

13.2.1.1.3. The requester must have jurisdiction over the activity at issue.

13.2.1.1.4. The requested audit should not duplicate an ongoing audit or a project scheduled during the current fiscal year. If the subject conflicts with a scheduled CDA, the office or team chief must contact the appropriate associate director and obtain approval to start the audit. Document coordination actions in the working papers.

13.2.1.1.5. The request should not duplicate coverage of a NAFI activity audited by a public accountant within the prior 6-month period or scheduled within the next 6month period. However, honor requests for performance audits if public accountant coverage was limited to a financial statement audit.

13.2.1.2. Requests Requiring Region Approval. AAO chiefs will request region chief approval before honoring the following types of requests.

13.2.1.2.1. Review of inventories or accounts because of a change in custodian or accountable officer.

13.2.1.2.2. Reviews involving the retirement of records.

13.2.1.2.3. Audits of subjects involving ongoing CDAs or included in the current AFAA Fiscal Year Audit Plan. For these audits, AAO chiefs will also obtain CDA directorate approval.

13.2.1.2.4. Audits of private associations (e.g., Thrift Shop, Officers' Wives Club, Aero Club, etc.) when indications of fraud, waste, and abuse are not evident.

13.2.1.2.5. Gathering data to respond to an inspection report (Inspector General or AFOSI).

13.2.1.2.6. Requests relating to the Civil Air Patrol.



13.2.1.2.7. Requests involving the SAP, Foreign Military Sales and Military Assistance programs, or contingency-related appropriations. These subjects require special reporting per DoD instructions and CDA reviews. Further, SAP audits require coordination with AFAA/QLM (reference paragraph [10.3.4.3.1](#)).

13.2.1.3. Requests Requiring HQ AFAA/DOO Coordination. Notify HQ AFAA/DOO of any audit request received at installation level that may involve an issue of potential special interest to higher headquarters (MAJCOM or HQ USAF). Office chief judgment will prevail in these instances. Upon initial evaluation, the office chief may determine not to report the request. However, subsequent events may indicate probable or actual special interest by the MAJCOM or Air Staff. In such instances, the office chief will promptly report the audit request.

13.2.2. Reporting Results of Request Audits. Report the results of requested audits in the same manner as any other audit. Identify the requester in the report's introductory paragraph unless the requester prefers otherwise.

### **13.3. Air Force-Level Request Audits.**

13.3.1. Approving Request Audits. Although associate directors have the authority to approve CDA requests, they must report to HQ AFAA/DOO any audit requests received from a MAJCOM commander or vice-commander or HQ USAF office. Excluded are audit requests or suggested audit subjects received in direct response to the annual call for audit issues. **Note:** AFAAI 65-102, Chapter 1, addresses audit subjects not included in the annual plan.

13.3.1.1. Send HQ AFAA/DOO the following information: name, title, and organization of the requester; date of request; subject area involved and scope of the request; estimated audit start and completion dates; expected level to which audit results will be addressed (e.g., MAJCOM or HQ USAF).

13.3.1.2. After initial notification, follow-on reporting to HQ AFAA/DOO will not be necessary unless specifically requested.

13.3.1.3. As a courtesy, the associate director should inform the requester regarding disposition of the request within directorate-established timeframes.

13.3.2. Reporting Results of Request Audits. Report the results of requested audits in the same manner as any other audit. Identify the requester in the report's introductory paragraph unless the requester prefers otherwise. **Note:** Provide SAF/AGA (through channels) a brief summary of results after management discussions are concluded. Do not wait until issuing the report.

## Chapter 14

### REPORT APPENDICES

**14.1. Overview.** Include the following appendices with each report: Background Information (optional), Glossary of Acronyms (optional), Audit Scope and Prior Audit Coverage, Locations Audited/Reports Issued (generally only applicable to Air Force-wide reports), Points of Contact, and Final Report Distribution. **Note:** The following appendices may also be required on an individual basis: Interim Report, Management Comments (final report), and Additional Management Documents (final report).

**14.2. Background Information and Glossary of Acronyms Appendices.** These optional appendices, if included in the report, will be the first two appendices, respectively.

14.2.1. Background Information. Use this appendix to provide (a) pertinent background information concerning the area reviewed and (b) detailed information readers need to understand the report's issues and results. Normally, this appendix will not repeat information provided earlier in the Executive Summary or the tab background paragraphs. If not discussed earlier in the report, include criteria (laws and regulatory requirements) the auditor used to evaluate operations and management effectiveness. If the audit and management have different criteria, explain the rationale for using different criterion.

14.2.2. Glossary of Acronyms. Use this appendix when the report contains many unfamiliar acronyms. An acronym page could be useful to readers when they encounter acronyms they don't recognize.

**14.3. Audit Scope and Prior Audit Coverage Appendix.** The audit scope section indicates how the audit was conducted and provides other important audit parameters. The prior audit coverage section will identify prior audits with similar objectives that the audit team followed up on. If applicable, this appendix will also include a section titled "Related Reports" that includes reports of interest in the same area as the current audit that the audit team did not follow up on.

14.3.1. Audit Scope Section. The audit scope section will include at a minimum five paragraphs for Air Force reports of audit and six paragraphs for installation audit reports: (a) audit coverage, (b) sampling methodology, (c) data reliability, (d) auditing standards, (e) internal controls, and (f) discussion with responsible officials (installation reports).

14.3.1.1. Audit Coverage. The audit coverage paragraphs should contain the following:

14.3.1.1.1. Work Performed. Clearly indicate the parameters of the audit and the methodology used in the review so the reader fully understands the work both performed and not performed.

14.3.1.1.2. Scope Limitation. If the audit scope was limited for any reason, explain why and include qualifying statements when necessary to ensure the reader will understand the extent of audit coverage and the basis for the auditor's opinion.

14.3.1.1.3. Audit Time Period. Indicate when the audit was performed (from [month and year] planning work began to [month and year] field work ended).

14.3.1.1.4. Documents Reviewed. Identify the documents (title and time period) reviewed during the audit. The following examples illustrate this requirement: (a)

“This audit covered war reserve materiel transactions processed during the 12-month period ending 31 July 20XX.” (b) “This audit included an evaluation of financial statements for the 12-month period ending 30 June 20XX.” (c) “We reviewed vehicle maintenance records covering FY 20XX maintenance actions.”

14.3.1.1.5. Date of Issuance. Indicate the date (day, month, and year) the audit team issued management the draft report. If using accelerated installation report-processing procedures, use the date the report was discussed with the squadron commander or equivalent level.

14.3.1.2. Sampling Methodology. Follow the guidance below and in Chapter 11, for reporting use (or non-use) of sampling and CAATTS.

14.3.1.2.1. Sampling. If the audit involved sampling, indicate in the report the parameters (number of line items, units, dollar values, transactions, etc.) relating to the sample and to the universe from which the sample was selected (if determinable). Also, indicate the period of time covered. Further, indicate how the sample was used (e.g., projected to the entire universe to estimate a PMB or error rate or provide an overall assessment about an entity). If various samples, sampling methods, etc., were used to achieve the audit objectives and there are reportable conditions, consider including the sample information in the related tabs instead of Appendix I. For non-statistical samples, identify the special characteristics or parameters used in selecting the samples. **Note:** If statistical sampling was used in the audit and the auditor used the results to project the results to or make a statement about the entire universe, please include a “Y” for statistical sampling when entering report information into the AFAA MIS Product Module.

14.3.1.2.2. CAATTS. If the audit involved advanced CAATTS, specifically say so and explain the tools used; depth of data selected for review; criteria used for initial selection; criteria used to narrow down the initial selection (if applicable); and techniques used to select, analyze, and evaluate the data. Provide specific information in the audit report scope paragraph relative to use of advanced CAATTS, when applicable (reference paragraph [11.2](#)).

14.3.1.2.3. Non-Use of Sampling or CAATTS. If sampling or CAATTS was not used, so state. For example, state: “We did not use statistical or non-statistical samples or computer assisted auditing tools and techniques to analyze data or project results in this audit.”

14.3.1.3. Data Reliability. If the auditor used computer-processed data to support audit conclusions, discuss the scope of work accomplished to verify data reliability following the guidance in Attachment 3.

14.3.1.3.1. If computer-processed data were not used or relied on, so state. For example, state: “We did not use or rely on computer-processed data to support conclusions in this audit.”

14.3.1.3.2. If the audit work supported a CDA and the data reliability assessment was performed by the audit manager, insert the audit manager’s computer processed data reliability assessment (paragraph [9.6](#)) in the local report.

14.3.1.3.3. In the cross-referenced draft report, hyperlink the data reliability statement to the supporting working paper (paragraph 9.6).

14.3.1.4. Auditing Standards. Reference Chapter 8, for additional details and requirements for GAGAS compliance statements to be included in the audit report.

14.3.1.5. Internal Controls. Identify the significant internal and management controls evaluated. Reference Chapter 7 and paragraphs 8.5.2.5 (financial audits) and 8.6.2.2.2.1 (performance audits).

14.3.1.6. Discussions with Responsible Officials (Installation Reports Only). The audit team must discuss the draft report with responsible management officials prior to issuing the report for comment. In the report, include a paragraph stating with whom (by position title and organization) the audit team discussed or coordinated the report. For example, “We discussed this report with the XXX Wing Vice Commander, Support and Logistics Group Commanders, Logistics Readiness Squadron Commander, and other interested officials.” In the final report, indicate the date management’s written comments (oral comments for a clear report) were received. When the local auditor produces an audit report associated with a CDA, whether or not the report contains discrepant conditions, ensure local management officials are aware the project was part of an Air Force-wide audit. Include one of the following statements in the discussion paragraph:

14.3.1.6.1. If the report contains discrepant conditions, state the following: “We advised the commander (or designated representative) this audit was part of an Air Force-wide evaluation, Project Number XXXXXXXXX, (give project title). Selected data not reflected in this report, as well as data contained herein, may appear in a related Air Force audit report.”

14.3.1.6.2. If the report contains no discrepant conditions, state the following: “We advised the commander (or designated representative) this audit was part of an Air Force-wide evaluation, Project Number XXXXXXXXX, (give project title). Selected data not reflected in this report may appear in a related Air Force audit report.”

14.3.2. Prior Audit Coverage Section. Prior audit coverage applies when the current audit’s objectives are the same as or similar to a prior AFAA, DoD OIG, GAO, or other audit organization audit, as determined in the planning phase. Identify prior reports that required follow-up work in the prior audit coverage section. Do not include related reports with dissimilar objectives. **Note:** This section does not apply to audits accomplished specifically to follow up on prior audit reports. For audits listed in this section, include the following information:

14.3.2.1. Indicate if management satisfactorily implemented the recommended corrective actions.

14.3.2.2. State if management actions corrected the problems.

14.3.2.3. If the audit results in a “repeat” finding, state so in this paragraph, include it as a regular audit result (finding) in the body of the report, and reference the audit results paragraph in this paragraph. See AFAAI 65-101, Chapter 4, and AFAAI 65102, Chapter 4, for guidance on identifying and reporting “repeat” findings.

14.3.2.4. If there were no audits with similar objectives, so state. For installation reports use the following example or similar wording, “Our review of audit files and contact with base officials disclosed no other audit report issued to the \_\_\_\_\_ Wing by any audit agency within the last 5 years that related to our audit objectives.” The wording for Air Force reports of audit should be similar to the following example, “We did not identify any AFAA, DoD Inspector General, or Government Accountability Office reports issued within the past 5 years that addressed the same or similar issues.”

14.3.3. Related Reports Section. If appropriate, include a third section titled “Related Reports” to discuss reports addressing related issues that did not require follow up.

**14.4. Locations Audited/Reports Issued Appendix.** List each of the audited organizations and, if a report was issued, identify the report number and date. Sort and list the locations audited by command and unit designator. List HQ USAF and MAJCOM staff elements in alphabetical order and units in numerical order. Ensure the scope paragraph (number of locations audited) agrees with the listing of locations audited in this appendix. The draft report template contains a sample Locations Audited/Reports Issued appendix. **Note:** If applicable, list interim report(s) in this appendix. All installation-level reports should be finalized before issuing the final Air Force-wide report of audit.

**14.5. Points of Contact Appendix.** This appendix identifies audit team members responsible for the audit work and the AFAA MIS project number under which the audit was conducted. Follow the format indicated in the report templates located on the AFAA Home CoP.

**14.6. Final Report Distribution Appendix.** This appendix identifies the final report distribution and includes the FOIA statement in the footer.

14.6.1. Final Report Distribution Section. List the offices that will receive copies of the final report distributed outside the AFAA to other than the initial addressee. For installation-level reports, reference AFAAI 65-101, Attachment 2, to determine standard distribution requirements and Attachments 3 and 4 to determine special distribution requirements. For CDAs, refer to the Summary Report of Audit Standard Distribution template located on the AFAA Home CoP. Do not show distribution within the AFAA except for the AFAA representatives at the appropriate MAJCOM and intermediate command.

14.6.2. Freedom of Information Act. Audit reports and working papers are Air Force records covered under the provisions of the FOIA. AFPD 65-3, *Internal Auditing*, prescribes the Auditor General as the disclosure and denial authority for all AFAA audit reports and supporting audit records. Advise all report recipients as to the disclosure/denial authority by including the following statement in this appendix: “Freedom of Information Act. The disclosure/denial authority prescribed in AFPD 65-3 will make all decisions relative to the release of this report to the public.” Follow the format indicated in the report templates located on the AFAA Home CoP. **Note:** Draft reports do not contain management comments and may not necessarily reflect the final AFAA position. Accordingly, do not release them under the FOIA. Additional information is contained on the AFAA Home CoP (Customer Assistance/FOIA Requests) and in Chapter 5.

## Chapter 15

### MANAGEMENT COMMENTS

**15.1. Overview.** This chapter provides guidance for evaluating management comments and resolving disagreements with management over issues contained in draft audit reports (i.e., management comments either nonconcur with or are not responsive to report findings, recommendations, or PMBs). The guidance applies to AFAA audit reports issued to Air Force and other Defense activities such as the Defense Finance and Accounting Service (DFAS).

**15.2. Evaluating Management Comments.** The audit team will assess whether management comments adequately address the issues contained in the report, submit the evaluation for approval to the office chief, and insert the approved evaluation in the final report (paragraph [15.2.7](#)). If management nonconcurs or is not responsive, follow the guidance in paragraph [15.3](#)

15.2.1. Management Fully Concurs. If management fully concurs with the audit results and recommendations, evaluate the comments as responsive and insert your evaluation in the Evaluation of Management Comments paragraph. Include a statement similar to the following in the evaluation paragraph: “Management comments addressed the issues raised in the report and concurred with the PMB (if applicable). Management action taken or planned should correct the problem.”

15.2.2. Management Concurs and Proposes Alternative Corrective Actions. If management concurs with the audit results but proposes alternative corrective actions to correct the problem, the audit team should evaluate the management comments as responsive if the proposed actions will correct the condition. Include a statement similar to the following in the evaluation paragraph: “Management agreed with the audit results but proposed corrective actions alternative to the ones recommended in the report. Management’s proposed alternative actions should correct the problem.”

15.2.2.1. If sufficient information is not available to make a judgment on whether alternative corrective actions will correct the audit result, delay the report and do additional audit work.

15.2.2.2. Conversely, if the proposed alternative corrective action will not fix the problem, process the report as a nonconcurrency.

15.2.3. Management Nonconcurs. If management nonconcurs with the audit results and recommendations, review the comments and evaluate management’s logic.

15.2.3.1. If the audit team concludes the management comments are not responsive, include a statement similar to the following in the evaluation paragraph: “Management comments are not responsive to the issues raised in the report, and management does not plan to take action to correct the problems noted (or plans to take actions that will not, in our opinion, correct the problem).” Rebut the management comments by clearly explaining why management comments do not address the issues or are otherwise insufficient, and process the comments as a nonconcurrency. **Note:** Following the evaluation and rebuttal comments, include the following statement: “We advised management officials that we must elevate the disagreements with this audit report for resolution within the time periods prescribed in AFI 65-301.”

15.2.3.2. If the audit team concludes management is correct in the nonconcurrency, make the appropriate changes to the report and document the reason in the working papers. Clearly communicate both management's and the auditor's point of view in the report to assist in resolving the issue.

15.2.4. Management Partially Nonconcurrency. When management partially nonconcurrency, advise management in writing of your evaluation and attempt to resolve the differences. If management elects not to revise their comments, then follow the guidance below.

15.2.4.1. If management nonconcurrency with the audit results but concurs with the recommendations (or proposes alternative actions that you believe will correct the deficiency), evaluate the comments as responsive. Include a statement similar to the following in the evaluation paragraph: "Although management nonconcurrency with the audit results, they took (or plan to take) actions which we believe will correct the deficiency; therefore, this issue does not warrant elevation for resolution." In these instances, the audit team must still rebut management's nonconcurrency with the audit results and explain why the issue does not warrant elevation; however, do not list the issue on the SAR as a nonconcurrency, and do not process the comments as a nonconcurrency.

15.2.4.2. If management concurs with the audit results but nonconcurrency with the recommendations (and does not propose acceptable alternative actions), evaluate the comments as nonresponsive. Include a statement similar to the following in the evaluation paragraph: "Management comments adequately address the audit results but are not otherwise responsive to the issues raised in the report, and management does not plan to take action to correct the problems noted." The auditor must also rebut management comments and process the comments as a nonconcurrency.

15.2.4.3. If management concurs (or partially concurs) with the audit results and recommendations, but their comments do not adequately address the issues in the report, treat these comments in the same manner as a nonconcurrency. Include a statement similar to the following in the evaluation paragraph: "Although management concurred with the audit results and recommendations, they have not taken (or do not plan to take) action which we believe will correct the deficiency; therefore, management comments are not responsive to the issues raised in the report." The auditor must rebut management's nonresponsive comments and process the comments as a nonconcurrency.

15.2.5. Management Nonconcurrency with PMB. Management comments must provide reasons for a nonconcurrency and include evidence to support the alternate estimate. Instruct management to re-accomplish comments that do not reflect reasons for nonconcurrency with the PMB (reference AFI 65-301, Chapter 4).

15.2.5.1. Full Nonconcurrency. Regardless of actions taken or planned on the audit results and recommendations, if management nonconcurrency with the existence (not amount) of a PMB, evaluate the comments pertaining to the PMB as nonresponsive. Include a statement similar to the following in the evaluation paragraph: "Management comments addressed the issues raised in the report, and management action taken or planned should correct the problem. However, management disagreed the action taken would result in monetary benefits. Therefore, management comments are not responsive to the monetary

benefits contained in the report.” The auditor must now rebut management comments related to the PMB and process the comments as a nonconcurrency.

15.2.5.2. Partial Nonconcurrency - Lesser Amount Specified. If management agrees with the existence but not the amount of the PMB and specifies a specific lesser amount (e.g., management agrees with only 3 of 5 line item reductions or a portion of the claimed amount), evaluate the management comments and explanation as follows:

15.2.5.2.1. If the audit team disagrees with management’s reduced PMB, evaluate the comments as nonresponsive. Evaluate only the amount in dispute (the difference between the auditor’s estimate and the amount agreed to by management) as a nonconcurrency. Include a statement similar to the following in the evaluation paragraph: “Management comments addressed the issues raised in the report, and management action taken or planned should correct the problem. However, management disagreed the actions taken would achieve the full audit-estimated PMB. Instead, management estimated a lower PMB of only \$x.x million. Therefore, management comments are not responsive to \$y.y million (*the difference*) of the monetary benefit contained in the report.” The auditor must now process the management comments as a nonconcurrency.

15.2.5.2.2. If the audit team agrees with management’s reduced PMB, evaluate the management comments as responsive. Show the agreed-to PMB amount in the final report and indicate audit’s concurrence with the reduced amount in the evaluation comments. Adjust the appropriate parts of the final SAR.

15.2.5.3. Partial Nonconcurrency - No Amount Specified. If management agrees there will be a PMB but does not agree with the amount of the PMB because they cannot determine the actual amount, evaluate the comments as responsive. Include a statement similar to the following in the evaluation paragraph: “Management agreed monetary benefits will accrue, but declined to state an estimate. Management will validate the amount of actual savings after implementing the recommendation and report savings to the Air Force follow-up official (SAF/FMP) in the Semiannual Follow-up Status Report.” When this situation exists, include in the SAR statement the auditor’s original estimate in Part I.L and Part II.D. Part I.M and Part II.E should state: “To be determined.” **Note:** Management should “concur in principle” with the PMB rather than “nonconcur” and provide rationale for their qualification. AFI 65-301 states: “management should not disagree with the audit estimate solely to defer the decision until actual benefits materialize.” Bring this reference to management’s attention if their comments state “nonconcur” relative to the PMB.

15.2.6. Management Provides New Information. If management provides new information in support of a position or to contradict information in the report, the auditor must appropriately verify the new information. When necessary to provide a more objective presentation of facts, modify the final report to include the new, verified information. **Note:** If significant facts, omitted from the draft report, become known after issuing the draft for management comments, the audit team should re-accomplish the finding paragraph and possibly the recommendation and resubmit the report to management for comments. Complete cross referencing and independent referencing and obtain office chief approval before submitting the revised report to management.



15.2.7. Inserting the Evaluation of Management Comments in the Report. After the office chief approves the evaluation of management comments, insert the evaluation in the final report.

15.2.7.1. Executive Summary. Add a statement, similar to the following, at the end of the Management's Response paragraph:

15.2.7.1.1. Responsive Comments. "Management officials agreed with the overall results. The corrective actions taken and planned are responsive to the audit results, recommendations, and PMB (if applicable) included in this report. Therefore, this report contains no disagreements requiring elevation for resolution." **Note:** For clear reports, indicate that management officials agreed with the results contained in the audit report.

15.2.7.1.2. Nonresponsive Comments. "Management comments adequately addressed the issues raised in Tab B. However, management comments were not responsive to the audit results, recommendations, and PMB discussed in Tab A. Reference Tab A for additional details and the audit rebuttal. We will elevate the issues in disagreement up the chain of command for resolution in accordance with AFI 65-301."

15.2.7.2. Report Tabs. Include an Evaluation of Management Comments paragraph at the end of each audit result in the tab. In addition to the evaluation comments, for non-responsive comments, include the following two elements.

15.2.7.2.1. The audit team's rebuttal. In the rebuttal, do not introduce new facts that were not presented to management in the draft report. The rebuttal must support the audit results, recommendation, and PMB (if applicable) by stating the rationale for the auditor's disagreement with management.

15.2.7.2.2. A statement that the audit team will elevate the issues in disagreement up the chain of command for resolution in accordance with AFI 65-301.

### **15.3. Nonconcurrency Procedures (Air Force Activities).**

15.3.1. Installation-Level Report Nonconcurrences.

15.3.1.1. Office Chief Responsibilities. The office chief will process management comments as a nonconcurrency if they (a) disagree with any finding, recommendation, or PMB; or (b) propose alternative actions that the office chief believes will not correct the audit-identified problems. To process a nonconcurrency, the office chief must:

15.3.1.1.1. Make every attempt to resolve the disagreements locally, including discussing the management comments and the AAO evaluation with the unit commander, before elevating to the AFAA representative for resolution.

15.3.1.1.2. Prepare a notification memorandum to the appropriate AFAA representative and attach a copy of the related final report of audit when unable to resolve disagreements with local management. The memorandum should identify the specific paragraph or paragraphs of the report requiring resolution, identify actions taken locally to resolve the disagreements, and include any additional information that may be helpful to the AFAA representative in the resolution process. Also, include details (names, office symbols, dates of contacts, and a brief summary of

results) of any contacts with MAJCOM or HQ USAF officials relating to the disagreement.

15.3.1.1.3. Provide copies of the notification memorandum to HQ AFAA/DOO, SAF/AGA, the directorate, the region, and the audit control point for CDAs.

15.3.1.1.4. Ensure management officials and the unit audit focal point are advised of final resolution results.

15.3.1.2. AFAA Representative Responsibilities. AFAA representatives have the responsibility and authority to resolve disagreements with audit reports elevated from installation-level or originating within the MAJCOM. The AFAA representative will contact appropriate MAJCOM officials, discuss any disagreements, and obtain an official response relating to the disagreement.

15.3.1.2.1. MAJCOM Supports Management Position. If the MAJCOM response supports the management position, the AFAA representative will evaluate the MAJCOM comments and determine whether to resolve the disagreement in favor of management or elevate the disagreement to HQ USAF for resolution.

15.3.1.2.1.1. When resolving a disagreement in favor of management, the AFAA representative will document the rationale for this decision and coordinate the determination with the involved AAO, the applicable region, and the audit control point for CDAs. The AFAA representative will then prepare and distribute a resolution memorandum in accordance with Attachment 4. **Note:** For CDAs, the AFAA representative will ensure the planned resolution action does not contradict conclusions in the Air Force-level report.

15.3.1.2.1.2. When elevating disagreements to HQ USAF for resolution, the AFAA representative will forward all pertinent data, including results of any discussions with HQ USAF and MAJCOM personnel, to SAF/AGA (copies to the involved AAO, the applicable region, the audit control point for CDAs, and HQ AFAA/DOO).

15.3.1.2.2. MAJCOM Supports Audit Position. If the MAJCOM response supports the audit position, the AFAA representative will prepare and distribute a resolution memorandum in accordance with Attachment 4. The AFAA representative will also ensure the management response includes appropriate action to correct the disagreement and an estimated completion date.

15.3.1.2.3. Disagreements Folder. The AFAA representative will maintain a folder for each audit report with disagreements elevated for resolution. The folder will include a copy of the report and the AAO transmittal memorandum; a listing of persons contacted, dates contacted, and results of the contacts; copies of all resolution-related correspondence with the command, including a copy of the official command position; and copies of the closure/elevation memorandum. Retain the folder for 3 years after the disagreements are resolved.

15.3.1.3. SAF/AGA Responsibilities. SAF/AGA has the authority and responsibility to resolve disagreements with installation-level reports elevated to HQ USAF for resolution. SAF/AGA will:

- 15.3.1.3.1. Contact responsible HQ USAF officials and obtain their position relating to the disagreement.
- 15.3.1.3.1.1. If HQ USAF officials agree with audit, SAF/AGA will prepare and distribute a resolution memorandum in accordance with Attachment 4 stating the final audit and management agreement. The memorandum will address planned actions by the appropriate HQ USAF organization to correct the condition that initially resulted in the disagreement.
- 15.3.1.3.1.2. If HQ USAF officials do not agree with audit, SAF/AGA will evaluate the HQ USAF response. If SAF/AGA decides to close the issues in favor of management, SAF/AGA must coordinate this decision with the originating AFAA directorate before issuing the final resolution memorandum. SAF/AGA will process any disagreements on resolutions between AFAA line directorates and SAF/AGA through HQ AFAA/DO to SAF/AG for decision.
- 15.3.1.3.2. Coordinate through HQ AFAA/DO to SAF/AG if both SAF/AGA and the AFAA directorate disagree with the management position. SAF/AG will make all decisions regarding elevation of disagreements to the Under Secretary of the Air Force for final resolution.
- 15.3.1.3.2.1. If SAF/AG decides to elevate an installation-level report to the Under Secretary, HQ AFAA/DO will forward all pertinent data to SAF/FMP for resolution processing in accordance with AFI 65-301.
- 15.3.1.3.2.2. If SAF/AG decides not to elevate the installation-level report to the Under Secretary, SAF/AGA will resolve the report according to SAF/AG direction.
- 15.3.1.3.3. Maintain a folder for each report with disagreements elevated for resolution. The folder will contain contents as described in paragraph [15.3.1.2.3](#)
- 15.3.1.4. Processing Nonconcurrences Time Frames. Resolve nonconcurrences within 180 days of the audit report date. Reference AFI 65-301, Chapter 3.
- 15.3.1.4.1. The AAO will:
- 15.3.1.4.1.1. For reports containing disagreements, promptly forward copies to the AFAA representative within 7 days of report issuance.
- 15.3.1.4.1.2. For reports containing no management comments, forward copies to the AFAA representative on the 31st day after the final report date (reference AFAAI 65-101, Chapter 5).
- 15.3.1.4.2. The AFAA representative will, if unable to resolve the disagreements at MAJCOM level, forward the report to SAF/AGA on the 90th day after the date of the final report for resolution with the Secretariat or Air Staff.
- 15.3.1.4.3. SAF/AGA has until the 180th day after the date of the audit report to obtain either a HQ USAF position or mediate an agreement on the undecided issues.
- 15.3.2. Air Force-Level Report Nonconcurrences. If the CDA team cannot resolve issues in disagreement, the Assistant Auditor General will inform SAF/AG of the disagreement via a AF Form 1768, *Staff Summary Sheet*, with five attachments: (a) a proposed SAF/AG

memorandum to AF/CVA or the appropriate Assistant Secretary advising of the disagreement; (b) the draft audit report; (c) management comments; (d) a proposed evaluation rebutting the management comments; and (e) a chronology of discussions/attempts to resolve the disagreement. Process the AF Form 1768 through HQ AFAA/DO to SAF/AG.

15.3.2.1. After SAF/AG approves the AF Form 1768, SAF/AGA will usually refer the AF Form 1768 package to the OPR in a final attempt to resolve the disagreement before it goes forward. If this effort is not successful, SAF/AG will forward the approved AF Form 1768 to the Secretariat or AF/CVA.

15.3.2.2. The Secretariat or AF/CVA can either (a) require the HQ USAF OPR provide revised management comments concurring with the audit position, (b) ask AFAA and the management OPR to make one last attempt to resolve the disagreement, or (c) sustain the HQ USAF position and sign the comments.

15.3.2.3. Due to the complexity and rarity of the situation, the AFAA has not established any firm timeframes for processing disagreements at the Air Force level. All participants are encouraged to work expeditiously in resolving the nonconcurrence and preparing the required correspondence.

**15.4. Nonconcurrence Procedures (Other Defense Activities).** The Deputy Secretary of Defense is the final decision authority for unresolved nonconcurrences between AFAA and non-Air Force DoD activities.

15.4.1. Installation-Level Audit Reports. AAO chiefs elevate nonconcurrences involving DoD entities, such as DFAS, to SAF/AG through the region, directorate, and HQ AFAA/DO. Any successive AFAA management level can resolve the issue and provide supporting rationale. The applicable region will then prepare and distribute the closure memorandum. If SAF/AG elevates the disagreement through the Secretary of the Air Force to the Deputy Secretary of Defense as a Department position, HQ AFAA/DO closes the nonconcurrence according to the direction of the Secretary of the Air Force or Deputy Secretary of Defense.

15.4.2. Air Force-Level Audit Reports. HQ AFAA/DO elevates all nonconcurrences to the Audit Follow-up and Technical Support Directorate, ODIG-AUD. If in agreement with the AFAA position, ODIG-AUD enters the report into the mediation process. Once resolved, ODIG-AUD writes and distributes the resolution memorandum to SAF/AG. Conversely, ODIG-AUD provides SAF/AG with the rationale when not supporting the AFAA position. SAF/AG has 15 calendar days to evaluate the issue and determine whether to pursue the issue through the Secretary of the Air Force (with a copy to SAF/FM) for elevation to the Deputy Secretary of Defense. Upon resolution, SAF/FM closes the issue. HQ AFAA/DO notifies SAF/FM of the decision not to elevate the issue. SAF/FM closes the issue using ODIG-AUD rationale.

## Chapter 16

### REQUESTS FOR GENERAL COUNSEL LEGAL OPINIONS

**16.1. Overview.** During the audit process, a general counsel legal opinion may appear necessary. This chapter provides guidance for all requests for Air Force General Counsel (SAF/GC) legal opinions resulting from audit work.

#### **16.2. Procedures.**

16.2.1. Requesting an Opinion – Step 1. Before requesting a general counsel legal opinion, make a reasonable effort to resolve the issue at a lower level.

16.2.1.1. Legal Office. One possible method for accomplishing this resolution is by contacting the local/MAJCOM staff judge advocate's office to obtain a legal opinion, interpretation, or clarification. This method applies primarily to locally initiated audit efforts. Coordinate MAJCOM assistance with the applicable AFAA representative.

16.2.1.2. Federal Legal Information Through Electronics (FLITE). Another possible method is to research Supreme Court decisions issued between 1937 and 1975 available through FLITE. FLITE provides computerized research, based on key-word searches. Databases include the United States Code and Statutes-at-Large, executive orders, decisions of the Comptroller General, and acquisition regulations.

16.2.2. Requesting an Opinion – Step 2. The next step in requesting a general counsel legal opinion depends on whether the functional OPR is an Air Force or DoD organization.

16.2.2.1. Air Force Organization. When the functional OPR is an Air Force organization, the Assistant Auditor General should send a memorandum, through HQ AFAA/DO (or the AFAA representative) to the HQ USAF (or MAJCOM) functional OPR. The memorandum should request written views (or other pertinent information) on the subject within 10 workdays. Also, if the issue involves funding, send a copy of the memorandum, through HQ AFAA/DO, to the Assistant Secretary, Financial Management & Comptroller, Deputy Assistant Secretary Budget (SAF/FMB).

16.2.2.2. DoD Organization. When the functional OPR is a DoD organization other than the Air Force, the Assistant Auditor General will send a memorandum, through HQ AFAA/DO, to the appropriate HQ USAF liaison office. For example, if the issue addresses accounting policy, DFAS is the functional OPR. In that situation, the Assistant Auditor General will send the memorandum, through HQ AFAA/DO, to SAF/FM requesting they coordinate with DFAS and provide, in writing, the coordinated response (or other pertinent information) on the subject. If the issue involves funding, send a copy of the memorandum through HQ AFAA/DO to SAF/FMB.

16.2.3. Requesting an Opinion – Step 3. The Assistant Auditor General will evaluate the response of the functional OPR and/or SAF/FMB and determine if the issue warrants a SAF/GC opinion.

16.2.3.1. General Counsel Opinion Not Necessary. If a SAF/GC opinion is unwarranted, the Assistant Auditor General will prepare a memorandum for the record explaining why and provide copies to the AFAA activity initiating the request.

16.2.3.2. General Counsel Opinion Necessary. If the issue warrants a SAF/GC opinion, the Assistant Auditor General will send a request for legal opinion to SAF/GC through HQ AFAA/DO (with a copy to the HQ USAF functional OPR). If the functional OPR is a DoD organization other than the Air Force, the request should also notify SAF/GC and ask that SAF/GC coordinate its response with the legal office advising the DoD organization. Every request should have a minimum of two attachments:

16.2.3.2.1. Attachment 1 explains the issues involved, AFAA's position on the issues and, if applicable, any rebuttal comments or clarification considered necessary to the coordinated response received from the functional OPR.

16.2.3.2.2. Attachment 2 includes a copy of the coordinated functional OPR comments and, if applicable, SAF/FMB comments. Add additional attachments as necessary.

**16.3. Discussions with Air Force General Counsel.** At times during the conduct of CDAs, it may be necessary for the audit control point to informally discuss issues with SAF/GC. For example, the audit manager may need an interpretation of law. On these occasions, advise SAF/AGA of the need to contact SAF/GC. SAF/AGA will either obtain the information or assist the audit manager in making direct contact. The audit manager will prepare a memorandum for the working papers that includes the issues discussed, with whom discussed, and the results of the discussions.

## Chapter 17

### POTENTIAL MONETARY BENEFITS

**17.1. Overview.** This chapter provides policies, procedures, and responsibilities for computing, classifying, reporting, and documenting PMB. For further guidance, reference DoD 7600.07-M, Enclosure 10, and AFI 65-301, Chapter 4.

#### **17.2. Definitions.**

17.2.1. Nonmonetary Benefits. These benefits cannot be readily expressed in monetary terms. Such benefits may result from recommendations relating to operational readiness, equal employment opportunity, personnel safety, data accuracy, environmental programs, organizational structure, or rehabilitation programs and would normally be expressed using the most appropriate quantitative measurement in each instance. For example, increased operational readiness could be expressed in numbers of units meeting readiness standards, while improvements in equal employment opportunity could be expressed in the numbers or percentages of minorities or women employed.

17.2.2. Potential Monetary Benefits. These benefits can be reasonably measured and expressed as a dollar value. A PMB is a reasonable estimate or an actual known benefit, expressed as a dollar value, that, at the time the audit report is issued, the AFAA expects the DoD or Federal Government overall to achieve if management implements audit recommendations. The AFAA must have an adequately detailed basis for the reported PMB dollar value to meet auditing standards and provide Air Force budget personnel the required detailed data to respond to Congressional interest in PMB. Further, Agency staff auditors require such detail to prepare the Semiannual Followup Status Report to the Congress and to identify and track recommendations selected for follow-up action.

**17.3. Types of Potential Monetary Benefits.** Potential monetary benefits can be categorized as either funds put to better use or questioned costs, but not both.

17.3.1. Funds Put to Better Use. A PMB categorized as funds put to better use occurs when management implements and completes actions in response to audit recommendations and the fiscal impact is a more efficient or effective use of funds. Examples include redistributing excess materiel to satisfy requirements; avoiding, reducing, or deferring expenditures; canceling or partially terminating contracts; deobligating funds; recouping erroneous payments; canceling approved and funded maintenance, repair, or construction; reducing personnel authorizations; reducing requirements with ongoing or planned procurement; or specifically identifying any other savings or cost reductions. See Attachment 6 for examples of funds put to better use.

17.3.2. Questioned Costs. This type of PMB is an incurred cost questioned by audit because: (a) of an alleged violation of a provision of law, regulation, etc., governing the expenditure of funds, (b) such a cost is not supported by adequate documentation, or (c) the expenditure of funds for the intended purpose is unnecessary or unreasonable (e.g., defective pricing on defense contracts). A disallowed cost is a questioned cost that management has sustained or agrees to not charge the government. This term applies only to audits of incurred costs such as those relating to defective pricing on defense contracts. A recommendation to recoup this type of questioned cost would result in a PMB.

**17.4. Classification of Potential Monetary Benefits.** Potential monetary benefits are classified as either one-time or annual.

17.4.1. One-Time Benefits. These benefits, resulting from reductions in requisitioning objectives, the return of funds erroneously paid out, or reductions of materiel requirements with ongoing or planned procurement, usually occur over a finite period. Management actions such as canceling plans to acquire major items of equipment over a number of years and leasing rather than purchasing automated data processing equipment are instances where a one-time management action could result in benefits affecting several fiscal years. If the audit does not clearly demonstrate that the monetary benefit is recurring, the claim should be limited to the period of time supported by the audit work completed.

17.4.2. Annual Benefits. These benefits could conceivably continue indefinitely. Examples are reductions in payroll or other operating expenses.

**17.5. Time Period for Potential Monetary Benefits.** DoD 7600.07-M permits a maximum 6-year estimate of PMBs. As such, the amounts claimed are limited to the 6-year period covered by the most current year and up to 5 additional years. If audit cannot demonstrate the potential benefit applies to a full 6-year period, the audit report must limit the PMB claimed to the period supported by completed audit work. **Note:** In April 2010, the Deputy Secretary of Defense issued a memorandum outlining key changes to programming and budgeting processes. These changes included focusing annual Program/Budget Reviews and the Future Years Defense Program on a 5-year period each cycle, rather than the 6-year period used in previous years. Therefore, the explanation of PMB calculations should NOT include any reference to a 6-year Future Years Defense Program. The following is acceptable verbiage to address PMB reporting: "...corrective actions will result in potential monetary benefits of \$100,000 annually or \$600,000 over 6 years (execution year and the Future Years Defense Program)."

#### **17.6. Responsibilities.**

17.6.1. Audit personnel will:

17.6.1.1. Obtain and document in working papers valid support for all claimed potential benefits.

17.6.1.2. Identify in the audit report how they determined and calculated the benefit amount (supported by schedules or exhibits, as necessary) and properly fill out a SAR statement. In reports where PMB will result from several recommendations, narrative descriptions should be sufficiently clear to enable the reader to easily determine the specific amount expected from each recommendation.

17.6.1.3. Forward draft reports containing PMB to HQ AFAA/DOO for review and approval prior to releasing the reports for comment. Further, audit personnel must retain copies of the HQ AFAA/DOO coordination document in the project working paper files. **Note:** For installation reports, the office chief will not approve draft reports with PMB until region and HQ AFAA/DOO coordination is completed (reference AFAAI 65-101, Chapter 4).

17.6.1.4. Revise SAR statements when PMBs change due to HQ AFAA/DOO adjustment (paragraph [17.6.3](#)).



17.6.1.5. Coordinate with HQ AFAA/DOO if there are any changes to the PMB following the initial coordination.

17.6.2. Audit supervisors will:

17.6.2.1. Verify all PMB meets established criteria.

17.6.2.2. Ensure auditors properly document, support, and coordinate PMBs.

17.6.3. HQ AFAA/DO. The DoD 7600.07-M requires that an independent party review PMB computations before the final report is issued. The purpose of this review is to ensure consistency in accumulating, categorizing, and reporting monetary benefits. Toward that end, HQ AFAA/DOO will:

17.6.3.1. Review and evaluate all PMBs resulting from AFAA reports before the draft report is released for comment. Based on those evaluations, AFAA/DOO will coordinate recommendations for revised SAR statements and revised reports with the applicable team (audit manager, program manager, and associate director or installation-level auditor, team chief, and office chief).

17.6.3.2. Collect PMB data from the coordinated SAR statements and prepare statistical inputs to required reports.

17.6.3.3. Report PMBs to appropriate officials through the DoD OIG Semiannual Report to the Congress and Semiannual Followup Status Report.

**17.7. Rules for Computing Potential Monetary Benefits.** Compute only those benefits that directly result from audit recommendations (or management actions completed during the audit) and only when evident that the benefits can be or have been realized by management implementing the recommendations.

17.7.1. Reasonable Computation. Compute potential benefits in a reasonable manner. Conservative estimates may be used if properly supported. The rationale for all estimated dollar values must be sound, logical, able to withstand critical scrutiny, and included in the audit report. AFI 65-503, *US Air Force Cost and Planning Factors*, is useful in computing various costs.

17.7.2. Probable and Achievable. The potential benefit should be measurable, probable, predictable, and achievable once management takes the recommended corrective action. Monetary benefits are considered “potential” only because they have not yet been realized, but they should be realized in the amounts claimed, barring unforeseen events, once management takes the corrective actions recommended. If this is not the case, the amount cannot be realistically estimated and should not be claimed but instead reported as “not measurable” or “indeterminable” (i.e., to be determined or “TBD”) on the SAR statement. However, such amounts should be included in the body of the audit report as a device to alert management to the possibility of monetary benefits that may be expected and to persuade management to take corrective measures.

17.7.3. Offset Costs. Appropriate offset costs must be included in any potential benefit computation. Offset costs include all direct and indirect implementation and maintenance costs that will be incurred in implementing the action that will result in the benefit; however, sunk costs (resources already expended) are not included.

17.7.4. Valid Projections. When computing or estimating potential benefits from a sample, the report should sufficiently describe the sampling methodology: non-statistical or statistical.

17.7.4.1. Non-Statistical Samples. The major disadvantage of non-statistical sampling is that sample results cannot be projected to the remainder of the population or universe and cannot be extrapolated to periods beyond the period represented by the universe sampled. When using non-statistical sampling, show only test results in the report and do not imply a projection.

17.7.4.2. Statistical Samples. The AFAA encourages auditors to use statistical sampling. This technique is the most effective for projecting audit results because of the inherent accuracy of the projected benefits. In projecting statistical sample results, auditors must compute potential benefits using the most reasonable data available (i.e., the lower limit when expressing a single amount for a statistically projected range of values). Potential benefit projections based on statistical sampling are restricted to the population from which the sample was actually drawn. For example, when selecting a sample from a 3-month population, the auditor cannot project any resulting benefit to a period outside of the original 3-month period. Further, auditors will avoid implying that transactions from one universe are representative of other universes; such a connection is not statistically sound. However, before limiting the projection to only the 3 months, the auditor should consider other estimating techniques discussed below.

17.7.4.3. Other Estimating Techniques. DoD 7600.07-M states auditors should ensure statistical sampling or other quantitative methods used to estimate potential benefits are technically defensible, used accurately, and presented appropriately. To illustrate, if PMB results from sampling a 3-month universe, the auditor might “reasonably estimate” a full year of potential benefits if the sampled universe is reasonably representative of a full year’s transactions. In such a case, the auditor must demonstrate a sound basis for extrapolating benefits beyond the period represented by the sampled universe. Further, the audit report must clearly delineate the rationale used to derive such a “reasonable estimate” so management can evaluate and comment on the expanded calculation.

17.7.5. Nonappropriated Funds. Benefits identified to nonappropriated funds, including the military exchange organizations, should be reported following the same criteria as for appropriated funds. When claiming benefits identified to nonappropriated funds, auditors must clearly describe these benefits in audit reports so as not to imply that the benefits involve appropriated funds when that is not the case.

17.7.6. Net Benefit. A claimed PMB must result in a net benefit to the DoD or the Federal Government overall (e.g., reimbursements to the DoD from other federal activities or refunds to the Treasury). Intra-Defense collections or reimbursements resulting in “wash” (i.e., offsetting) transactions to the DoD are not claimable.

**17.8. Impact on Procurement.** Auditors must demonstrate the impact on ongoing or planned procurement during the current year and up to 5 additional years to claim a PMB. Ongoing or planned procurement must include associated budget data. The PMB amount claimed cannot represent an amount already expended (lost opportunity), but must be based on a future expenditure expected to occur during the 6-year period. A PMB could result from a reduction in future program data (for example, flying hours), reduction in stock and/or additive levels,

reduction of back orders or base due-ins, reduction of authorizations, items found on base not on accountability records, etc.

17.8.1. Canceling Locally Funded Requisitions. A PMB (funds put to better use) can be claimed when operation and maintenance (O&M) funds are reinstated by canceling or reducing an order from a supply support activity. Canceling locally funded due-outs (back orders) do not require validation with the AAO located at the air logistics center (ALC) as described in paragraph **17.8.5**.

17.8.2. Redistribution of Excess Supplies. The redistribution of excess supplies to activities having a current need can result in monetary benefits through canceling requisitions or planned procurements.

17.8.3. Redistribution of Excess Equipment. To claim a PMB, the auditor must demonstrate that excess equipment, when redistributed, would result in canceling or reducing an ongoing or planned procurement during the current year plus 5 additional years following audit completion. This usually occurs when an equipment item is found on base and is not on Air Force accountability records. Excess assets reported on accountability records will not result in a PMB. Therefore, malpositioned assets requiring redistribution are not a PMB.

17.8.4. Deferred Procurement. If a recommendation is made to defer the procurement of supplies or equipment, the deferment must be for at least 2 years to claim the related PMB.

17.8.5. Validation Requirements for Ongoing or Planned Procurements of Equipment and Recoverable Items.

17.8.5.1. Audit Personnel Responsibilities. For PMB validation requests associated with CDAs, the audit manager should consolidate all individual PMB requests into one all inclusive request to the AAO at the applicable ALC for validation. For locally initiated audits, the auditor should send the validation request to the AAO at the applicable ALC. The request for assistance must be in writing, with copies to applicable regions or directorates, and the request will include the following data for each national stock number (NSN) involved.

17.8.5.1.1. Audited location to include the Stock Record Account Number.

17.8.5.1.2. Full description of the asset including the in-use NSN, master NSN, and nomenclature.

17.8.5.1.3. Expendability, Recoverability, Reparability Category Code. Providing this code (for example, XD1, XD2, and XF3) facilitates identifying the appropriate item manager.

17.8.5.1.4. Quantity of assets or authorizations involved.

17.8.5.1.5. Condition of assets (serviceable, unserviceable, reparable, etc.). For equipment items, show how the base is using the assets (e.g., to support mission, cannibalization, in storage, no use or planned use for item).

17.8.5.1.6. Description of the condition found. For example, were the assets properly and accurately recorded in base supply records? Were they “found on base?” Did the excesses result from inaccurate supply records? Were the levels improperly determined?

17.8.5.1.7. Draft report findings and recommendations (i.e.; reducing or canceling equipment authorizations) to provide assisting offices a clear understanding of what the audit team is trying to achieve.

17.8.5.1.8. Name and telephone number for a point of contact.

17.8.5.2. Assisting Audit Office Responsibilities. The assisting audit office will make every effort to accomplish the assist work within 5 workdays of receipt. Provide the following data in writing to the requesting office for each NSN involved (with a copy to the applicable region or directorate):

17.8.5.2.1. Current Air Force stock position of the asset, as determined from the applicable item manager.

17.8.5.2.2. A conclusion whether a PMB exists and any qualification statements/recommendations that should be included in the report to achieve the PMB.

17.8.5.2.3. The office symbol and identification symbol of the item manager with whom the assisting office coordinated the asset position.

17.8.5.2.4. The correct budget appropriation data, as determined from base budget personnel.

17.8.5.2.5. The name and telephone number of the auditor who accomplished the assist.

17.8.5.3. Data Review. The auditor will review the data received from the assisting audit office and determine whether to claim the PMB.

17.8.5.3.1. If claiming the PMB, include a statement in the applicable finding (normally following the “effect” segment) stating audit coordinated the amount with the AAO at the responsible ALC and confirmed a valid PMB exists. Tailor the specific wording to each individual circumstance. The basic purpose of the statement is to advise management that audit ascertained the validity of the PMB.

17.8.5.3.2. If not claiming the PMB, the audit team must evaluate the significance of the effect (i.e., impact) without benefit of the PMB and dispose of the finding accordingly.

**17.9. Reporting Potential Monetary Benefits.** Audit reports shall indicate the amount of potential monetary or nonmonetary benefits that can be or have been realized as a direct result of the audit findings and recommendations. Further, audit reports shall completely describe each potential benefit, either in the findings or an attachment or schedule, to ensure the reader understands the nature of the benefit, the amount claimed, and how the amount claimed was computed.

17.9.1. Independent Verification. A claimed PMB shall result from an independent and complete audit evaluation and adequately supported audit work. Auditors cannot rely on an estimated amount provided by management to support a claimed PMB amount but must independently verify the amount during the audit process.

17.9.2. Coordinate With the Funds Owner. When a PMB involves resources either owned by another organization or command or funded and controlled at another installation, the

auditor must make a concerted effort to determine the validity of the PMB before including it in the audit report.

17.9.3. Identify as Either Cost Reductions or Funds Put to Better Use. Potential monetary benefits are estimates of cost reductions or funds available for other uses that the Air Force can expect to realize if audit recommendations are implemented. Always include the specific dollar amount in the finding. If the amount exceeds \$50,000, also include the amount in the SAR statement as a claimed PMB. A PMB claimed as funds put to better use should identify specific cost reductions (i.e., management should be able to recoup the money or reduce, avoid, or eliminate funds from one program or operation and put them to better use in another program or operation).

17.9.4. Definite Recommendation. Each claimed PMB must result directly from the audit work completed, and the audit report must reflect a definite recommendation, or an audit comment stating management completed corrective action during the audit. Audit cannot claim a PMB based on what management may conclude or decide to do later after accomplishing studies or re-evaluations. Any PMBs associated with weak or indefinite recommendations (e.g., recommendations that include such qualifiers as “consider,” “re-evaluate,” “conduct a study or analysis,” “to the extent possible,” “form a committee,” “encourage,” “when appropriate,” or “either . . . or”) are normally too unpredictable to be estimated and claimed. In such cases, the claimed amount must be “TBD”. Finally, when each of several recommendations will result in potential benefits, the report narrative should be sufficiently clear for a cold reader to readily determine the amount of benefits expected from each recommendation.

17.9.5. Management Comments. In response to draft reports of audit, including reports with discrepancies management corrected during the audit (i.e., no recommendation required), management must provide formal, written comments regarding the PMB.

17.9.5.1. Reasonableness of Auditor-Estimated PMB. For PMBs greater than \$50,000, the auditor should seek agreement with management on the reasonableness of the PMB amount cited in audit reports and documented in working papers. AFI 65-301 states, “Management, however, should not disagree with the auditor’s estimate solely to defer the decision until actual benefits materialize. Management should comment on the reasonableness of the auditor’s estimate and must justify disagreements with evidence that supports an alternate estimate.”

17.9.5.2. Nonconcurrence. When management disagrees with the existence of a PMB and not just the PMB estimate, the final report must rebut management’s concerns and reinforce the audit position to justify claiming the amounts as achievable once management takes the recommended action, and elevate the issue for resolution. Otherwise, audit must adjust the claimed PMB to agree with management. In all cases, the auditor must obtain management’s explicit, signed concurrence or nonconcurrence. Process reports with a PMB nonconcurrence in accordance with paragraph [15.3](#)

17.9.5.3. Concurrence. If management agrees a PMB will occur but is unwilling to estimate a specific amount, audit will inform management that the audit report Evaluation of Management Comments will include the following: “Management agreed that potential monetary benefits will accrue but ‘declined to state an estimate’ or ‘provided a different estimated amount.’ Management will validate the amount of actual savings

after implementing the recommendation and report savings to the Air Force follow-up official (SAF/FMP).” When management will not confirm the PMB estimate or provide an alternative estimate, include audit’s original estimate in the SAR statement Part II and Part IID. Part IM and Part IIE should state, “To Be Determined.” (Reference Attachment 5 for examples of evaluations of management comments.)

17.9.5.4. Management Comments That Cast Doubt. Management comments that cast doubt on amounts claimed should be fully addressed in the audit report. Only when such comments are successfully rebutted can the audit report continue to claim the original PMB amount. Otherwise, the PMB amount must be adjusted accordingly.

17.9.6. PMBs in Follow-up Audit Reports. Although auditors follow up, when feasible, to verify the amount of a claimed PMB actually realized, a PMB is claimed and reported only one time for each finding. Benefits are not claimed in repeat findings, even if the amount determined during follow-up is greater than the original amount, because all PMBs actually achieved are credited to the prior report and recommendation. Claimed PMBs included in each semiannual report to Congress should only result from specific findings and recommendations in audit reports published during the period covered by the semiannual report. The only time a PMB would be reported in a follow-up audit report is when the PMB results from a new finding and recommendation not previously reported.

17.9.7. Independent Party Review. HQ AFAA/DOO will review all AFAA reports to ensure consistency in accumulating, categorizing, and reporting PMBs (paragraph [17.6.3](#)).

## **17.10. Potential Monetary Benefits Documentation.**

17.10.1. Requirement. Auditors must fully document in their audit working papers the computations and rationale used to develop PMBs. Auditors will also complete a SAR statement, Part II, and cross reference the SAR statement to the appropriate supporting working papers.

17.10.2. Summary of Audit Results Statement. A separate SAR statement Part II must be prepared for each finding resulting in a PMB of \$50,000 or more. Therefore, only one recommendation number, or management completed corrective action paragraph if management took corrective action during the audit, should be listed in each Part II prepared. Also, the amounts included in the SAR statement must agree with the amounts in the report.

17.10.2.1. SAR Statement Part II. A SAR statement template is located on the AFAA Home CoP. Of special importance is Part II of the statement.

17.10.2.1.1. Auditors must verify that the data are correct, complete, and relate to the command owning the assets or funds being claimed. For example, if an audit at an Air Combat Command (ACC) base discloses Air Force Materiel Command (AFMC) owns excess recoverable assets located on base, the auditor uses AFMC’s operating agency code and related data, not ACC’s.

17.10.2.1.2. For each recommendation or management completed corrective action resulting in a PMB, multiple Parts II may be required if the PMB affects more than one functional area, appropriation, or operating agency code. To obtain meaningful data, auditors will work with the local budget office as considered necessary. In some cases, to identify the right data, AFAA or budget personnel may find it necessary to

contact supply personnel (central procurement funds), inventory managers, command budget offices, AFAA representatives, and others.

17.10.2.2. SAR Statement Part III. The audit control point must list all monetary benefits estimated by audit for installation-level reports related to the CDA project in Part III of the SAR statement. In addition, in the rare instance where an installation-level report summarizes information from multiple installation reports, the auditor must list all monetary benefits estimated by audit in Part III of the SAR statement associated with the summary report.

17.10.2.3. Distribution of SAR Statements. The SAR statement is attached to all draft audit reports and to appropriate copies of final reports (usually those copies provided to the audit focal point). The SAR statement is not a formal attachment to the final report of audit and, thus, should not be reflected as such on the report's table of contents or signature page. Do not print SAR statements on available blank sheets of the audit report. Audit managers will include the SAR statement as part of the final report package sent to HQ AFAA/DO.

**17.11. Resolution of Disagreements.** Auditors will normally resolve questions or disagreements applicable to the SAR statement during the discussion process with management. In accordance with Chapter 15, elevate disagreements with PMBs in audit reports for resolution. When management disagrees with a specific portion of the auditor's estimate (e.g., management agrees with only three of five items audit claimed for a reduction in requirements), report only the amount in disagreement (the difference between the auditor's estimate and the amount agreed to by management) as a disagreement, not the total amount of PMB claimed by audit.

## Chapter 18

### INFORMATION ACCESS

**18.1. Overview.** AFAA has no limitations in selecting Air Force activities for audit, determining the scope of audit work, or reporting audit results. Air Force managers grant properly cleared AFAA auditors full and unrestricted access to information required to accomplish an announced audit objective. Managers generally grant access to this information based on oral or written requests without reference to higher authority.

**18.2. Access to Air Force Information.** AFI 65-301, Chapter 2, requires Air Force officials to cooperate with auditors and provide ready access to all information and personnel needed to meet an announced audit objective. Only the Secretary of the Air Force (SECAF) may deny auditors access to Air Force records, including contractor-maintained records.

18.2.1. Access Coordination. To assure compliance with security procedures and to facilitate access to needed information, auditors and audit managers will coordinate visits and audit information requirements as follows:

18.2.1.1. Command Restrictions. For classified information subject to command restrictions, contact the AFAA representative.

18.2.1.2. HQ USAF Restrictions. For classified information subject to HQ USAF restrictions, contact SAF/AGA.

18.2.1.3. Contractor-Maintained Records. For contractor-maintained records, contact the cognizant AFAA office and the ACO if the Air Force administers the contract. If another service administers the contract, contact HQ AFAA/DOO. If a DLA or DCMA organization administers the contract, coordinate access with HQ DLA or DCMA and the DoD OIG. Contact HQ AFAA/DOO for coordination procedures and contact points.

18.2.1.4. Computer Files and Databases. For computer files and databases, contact the cognizant AFAA office, the data owner (e.g., maintenance, supply, etc.), and the data processing manager.

18.2.1.5. Other Information. For all other information, contact the cognizant AFAA office and functional manager. Common courtesy dictates the auditor informs management of both the audit objectives and information requirements and any changes in either.

18.2.2. Access to *Privacy Act* Data. If management denies access to any information based on the *Privacy Act*, the auditor will explain that AFI 33-332 authorizes the release of such information for the performance of the auditor's official duties.

**18.3. Air Force Access Denial.** If management denies access to information needed by an auditor or audit manager to accomplish an assigned audit objective, including access to *Privacy Act* information, take the following actions:

18.3.1. Auditors notify the team chief and office chief immediately. Audit managers notify the program manager and associate director immediately. The office chief or associate director will attempt to resolve the access problem informally with management.



18.3.2. If the office chief or associate director fails to resolve the problem informally, the auditor or audit manager will prepare a written request to management for the information. The office chief or associate director signs this request and provides it to the management level refusing access. If management does not provide access within 3 workdays of the formal written request, the office chief or associate director elevates the request to the MAJCOM (through the AFAA representative). Include the following information in all correspondence:

18.3.2.1. Audit office and location of audit site where access was denied.

18.3.2.2. Primary audit objectives.

18.3.2.3. Description of records, documents, locations, or personnel for which access was requested and refused.

18.3.2.4. Name, rank/grade, title, and office symbols of individuals denying access.

18.3.2.5. Name and rank of responsible commanders with whom access was discussed and denial sustained.

18.3.2.6. Denial date.

18.3.2.7. Management's rationale for the denial.

18.3.3. The AFAA representative and region chief or associate director will attempt to resolve the access problem with the MAJCOM within 10 calendar days of the written request. If unable to resolve the problem in that time, the AFAA representative will refer the matter to HQ AFAA/DOO and the Assistant Auditor General. Include the AFAA written request and any command letters or memorandums in the referral package.

18.3.4. The Assistant Auditor General and SAF/AGA will attempt to resolve the access problem with the management OPR and AF/CC within 20 calendar days of the written request.

18.3.5. If the Assistant Auditor General and SAF/AGA fail to resolve the problem within 20 days, HQ AFAA/DOO refers the issue to SAF/AG for referral to the SECAF. SECAF will make a decision to allow or deny access within 30 days of the written request.

18.3.6. Either the AFAA representative (access resolved at MAJCOM level) or HQ AFAA/DOO (access resolved at HQ USAF level) will notify all involved AFAA elements of the access problem resolution.

#### **18.4. Access to Contractor and DoD Information.**

**18.4.1. Access to Contractor Information.** This paragraph pertains to contractor records as opposed to Air Force records maintained by the contractor. The team chief or audit manager must notify the appropriate ACO prior to beginning any audit work involving contractors. Provide this notification in the planning and audit announcement memorandums. AFAA personnel must fully use Air Force records, including records maintained by the ACO, before requesting access to contractor records. When a need exists to access contractor records, HQ AFAA/DOO coordinates with HQ DCAA and the appropriate office for assistance. Try to identify such requirements as early as possible, as the coordination process can take up to 30 days.

18.4.1.1. Contractor Charges for Records. Auditors requesting access to, or copies of, contractor records must be aware of the potential for obligating the Air Force for additional contractor charges. Prior to requesting contractor records, determine if there is any cost involved. If so, obtain AFAA directorate-level approval and a fund cite prior to requesting the records. The directorate obtains the fund cite from HQ AFAA/DORF.

18.4.1.2. Subpoenas. The DoD OIG has statutory authority to issue subpoenas for production of all contractor-owned information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary to perform functions assigned by the *Inspector General Act*. Any AFAA element perceiving the need to request a subpoena to support audit accomplishment should submit all pertinent information, through appropriate channels, to HQ AFAA/DOO for further processing.

18.4.2. Access to DoD Activities. DoDI 7600.02 states that auditors shall be granted full and unrestricted access, on a non-reimbursable basis, to all personnel, facilities, records, reports, databases, or other DoD information and material necessary to accomplish an announced audit objective. Auditors may require information from a DoD organization, such as DLA, DFAS, or the Defense Information Systems Agency (DISA). Because the DoD OIG has audit cognizance over DoD activities, AFAA must coordinate any audit work or information request through DoD OIG. Contact HQ AFAA/DOO to begin coordination procedures. Try to identify such requirements as early as possible, as the coordination process can take up to 30 days. HQ AFAA/DOO will attempt to resolve access denials, if any occur.

**18.5. Access to Data Restricted by the Joint Staff.** Chairman of the Joint Chiefs of Staff Instruction (CJCSI) 5714.01A, *Release Procedures for Joint Staff and Joint Papers and Information*, requires that, to the extent possible, the authorized holder grant release of all Joint Staff and joint papers and information. If the auditors and management cannot reach agreement to honor the request for information, or the conditions of release are unacceptable, HQ AFAA/DOO will request DoD OIG formally notify the Joint Staff of the disagreement and request the Joint Staff provide the auditors with the needed information. The Joint Staff will, within 30 days, either provide the needed information or forward a recommendation for denial to the Secretary of Defense for a determination pursuant to the *Inspector General Act of 1978*, as amended.

## Chapter 19

### RELEASE OF AUDIT INFORMATION

**19.1. Overview.** The AFAA attempts to accommodate requests from other government organizations, representatives of the news media, and the public for copies of audit reports and other related information. Follow this chapter's guidance for releasing audit-related information.

**19.2. Types of Requests.** AFAA classifies requests to review AFAA audit reports or related information, obtain copies of audit reports and related information, or discuss audit findings with AFAA personnel as either official requests or FOIA requests.

19.2.1. Official Requests. Official requests are requests for AFAA audit reports or related information received from government organizations (e.g., Congress, the GAO, other Federal Government organizations, DoD activities, Air Force activities, and state or local governments). HQ AFAA/DOO processes official requests for audit-related documents.

19.2.2. FOIA Requests. FOIA requests are requests for AFAA audit reports or related information from media, private citizens, or government officials acting in a private-citizen capacity. HQ AFAA/DORI is administratively responsible for all FOIA requests and use of the Air Force electronic-Freedom of Information Act (eFOIA) tracking tool and eFOIA Public Access Links. HQ AFAA/DOO will evaluate FOIA requests in accordance with DoD 5400.7R/AFMAN 33-302 and respond to the requester via the eFOIA tracking tool.

### 19.3. Special Considerations.

19.3.1. Official Requests from Legal and Investigative Activities. When The Judge Advocate General, courts-martial and other boards of officers, and AFOSI make requests in an official capacity for copies of audit reports, working papers, and related information, coordinate with HQ AFAA/DOO before providing access to the requested information. Do not discuss the status of ongoing audits with legal personnel before coordinating with HQ AFAA/DOO.

19.3.2. Reports of Audit for AFOSI Subjects. Follow paragraph [3.3.5](#) when processing an audit report for either an AFOSI request or for a subject referred to the AFOSI for investigation.

19.3.3. Audits in Progress. HQ AFAA/DOO may approve the release of audit-related information for an audit project still in progress. The AFAA official physically releasing the data must follow HQ AFAA/DOO release instructions and notify the management OPR. In addition, the releasing official must attach a statement advising the recipient that any opinions, conclusions, or recommendations contained in copies or information extracts provided may not represent the final AFAA or Air Force position.

19.3.4. Release of Data to Government Accountability Office. The law provides GAO with broad access rights. AFI 65-401 addresses these rights and provides guidance for releasing Air Force data to GAO. Refer requests for audit reports and working papers to HQ AFAA/DOO. Although GAO requesters have free access to AFAA reports and related working papers, coordinate with HQ AFAA/DOO before releasing any documents to GAO. Contact HQ AFAA/DORI for guidance prior to releasing classified information.

19.3.5. Release of *Privacy Act* Data. HQ AFAA/DOO follows AFI 33-332 to determine the authorization and accounting requirements for disclosure of personal information. Do not release *Privacy Act* data to non-DoD agencies other than GAO. Special reporting instructions apply when releasing *Privacy Act* data to GAO. If the requested information involves a CDA, the audit manager must notify the AAO chief who, in turn, must contact the local records custodian for instructions concerning how to report (account for) the disclosure. Each system of records has a specific method for recording disclosures. AFAA elements must comply with the established recording method.

19.3.6. Privileged Document Restrictions. Do not release or provide access to audit working papers containing extracts from reports of Inspectors General; Offices of Special Investigations; and Directors of Aerospace Safety, Nuclear Safety, Inspection, Security Police, and their command counterparts. Such reports are “privileged” documents and cannot be released, in whole or in part, outside the Air Force without the approval of the SECAF, SAF/IG, or HQ AFOSI.

19.3.7. Marking Working Papers. After HQ AFAA/DOO provides release approval, mark copies of releasable working papers in accordance with paragraph 5.3. Advise the recipient in writing to appropriately safeguard the working papers because they carry a “FOR OFFICIAL USE ONLY” designation in accordance with DoD 5200.1-R, Appendix 3. When granting only visual access, provide an oral “FOR OFFICIAL USE ONLY” notification. Contact HQ AFAA/DOO for additional guidance, as needed.

19.3.8. Requests for Interviews. Occasionally, representatives of the news media request interviews. These requests usually focus on an audit report previously released under FOIA. Refer the requester to the local Public Affairs office, and inform HQ AFAA/DOO of the request through the chain of command. HQ AFAA/DOO will provide specific instructions.

## Chapter 20

### USE OF OUTSIDE CONSULTANTS

**20.1. Overview.** To efficiently and effectively complete audits, audit teams may need to obtain expertise from outside consultants (Air Force technical area experts or contractors). For example, an audit that evaluates highly technical issues may require the assistance of outside experts/specialists. Effective use of consultants enhances the credibility and quality of audit products and minimizes resources and time needed to accomplish audit objectives. This chapter provides general policy for obtaining outside consultants.

**20.2. General Requirements.** Audit teams will:

20.2.1. Coordinate all decisions to use consultants with HQ AFAA/DO and obtain Auditor General approval.

20.2.2. Identify the need for technical assistance as early as possible to allow sufficient lead-time to identify and acquire the required skills.

20.2.3. Prior to engaging a consultant:

20.2.3.1. Determine whether the consultant has the skills to perform the required task. That is, the audit team will review the consultant's education, experience, or performance before hiring decisions are made. Reference *Government Auditing Standards* Chapter 3.

20.2.3.2. Execute a written agreement concerning what, specifically, the consultant will do; the type of documentation required; how the consultant will communicate the review results to the audit organization; with whom in the audit organization the expert shall deal; and to whom the expert shall report. Consideration must be given to whether the required technical services can be performed on a one-time basis or whether additional support will be required when responding to the auditee's comments and concerns prior to issuance of the final audit report.

20.2.4. Provide the consultant a copy of the *Government Auditing Standards* on independence at the time they are assigned to the audit, and have the consultant sign an independence statement. Document these actions in the audit working papers.

20.2.5. Maintain effective control over consultants while they are assisting the AFAA. In no instance will outside consultants have ultimate decision authority relative to an audit.

MICHAEL V. BARBINO  
Acting Director of Operations

**Attachment 1****GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION*****References***

- AFPD 33-4, *Enterprise Architecting*, 27 June 2006 (certified current 6 July 2010)
- AFPD 65-3, *Internal Auditing*, 21 April 2010
- AFPD 90-2, *Inspector General – The Inspection System*, 26 April 2006
- AFI 10-701, *Operations Security (OPSEC)*, 18 October 2007
- AFI 25-201, *Support Agreements Procedures*, 1 May 2005 (certified current 1 July 2010)
- AFI 31-401, *Information Security Program Management*, 1 November 2005 (incorporating Change 1, 19 August 2009)
- AFI 33-119, *Air Force Messaging*, 24 January 2005 (incorporating through Change 4, 2 September 2008)
- AFI 33-200, *Information Assurance (IA) Management*, 23 December 2008 (incorporating through Change 2, 15 October 2010)
- AFI 33-201, Volume 2, *Communications Security (COMSEC) User Requirements*, 26 April 2005
- AFI 33-328, *Administrative Orders*, AFAA Supplement, 30 June 2000
- AFI 33-332, *Air Force Privacy Program*, 16 May 2011
- AFI 36-401, *Employee Training and Development*, AFAA Supplement, (draft for implementation dated May 2011)
- AFI 36-703, *Civilian Conduct and Responsibility*, 1 August 1999
- AFI 36-704, *Discipline and Adverse Actions*, 22 July 1994
- AFI 36-1001, *Managing the Civilian Performance Program*, 1 July 1999
- AFI 36-2640, *Executing Total Force Development*, 16 December 2008
- AFI 65-301, *Audit Reporting Procedures*, 28 May 2010
- AFI 65-401, *Relations with the Government Accounting Office*, 23 March 1994 (incorporating Change 1, 23 March 2010)
- AFI 65-402, *Relations with the Department of Defense, Office of the Assistant Inspector Generals for Auditing, and Analysis and Follow Up*, 19 July 1994
- AFI 65-503, *US Air Force Cost and Planning Factors*, 4 February 1994
- AFI 90-201, *Inspector General Activities*, 17 June 2009 (incorporating changes through Air Force Guidance Memorandum 1.1, 10 February 2011)
- AFI 90-401, *Air Force Relations with Congress*, 1 July 1998
- AFMAN 33-363, *Management of Records*, 1 March 2008
- AFMAN 36-306, *Civilian Career Field Management and Development*, 3 May 2011

AFAAPD 65-1, *Internal Auditing*, 1 August 2005

AFAAI 36-101, *Awards and Recognition Program*, 27 September 2004

AFAAI 36-112, *Work Schedules*, 22 August 2005

AFAAI 65-101, *Installation-Level Audit Procedures*, 19 November 2010

AFAAI 65-102, *Centrally Directed Audits*, 6 April 2006

AFAAI 65-105, *Internal Quality Control Program*, 19 November 2010

DoDD 5106.01, *Inspector General of the Department of Defense*, 13 April 2006

DoDI 7600.02, *Audit Policies*, 27 April 2007

DoD 7600.07-M, *DoD Audit Manual*, 13 February 2009

DoD 5200.1-R, *Information Security Program*, 14 January 1997

DoD 5400.7-R/AFMAN 33-302, *Freedom of Information Act Program*, 21 October 2010

DoD 5400.11-R, *Department of Defense Privacy Program*, 14 May 2007

DoD 5500.7-R, *Joint Ethics Regulation (JER)*, 1 August 1993

GAO-01-1008G, *GAO Internal Control Management and Evaluation Tool*, August 2001

GAO-07-731G, *Government Auditing Standards*, July 2007

GAO-07-1173G, *Financial Audit Manual*, Volume 3, August 2007

GAO-08-585G, *Financial Audit Manual*, Volume 1, July 2008

GAO-08-586G, *Financial Audit Manual*, Volume 2, July 2008

GAO-09-680G, *Assessing the Reliability of Computer-Processed Data*, 1 July 2009

CJCSI 5714.01A, *Release Procedures for Joint Staff and Joint Papers and Information*, 1 March 1999

FIPS 199, *Standards for Security Categorization of Federal Information and Information Systems*, February 2004

NIST FIPS 140-2, *Security Requirements for Cryptographic Modules*, 25 May 2001

OMB Circular A-130, Appendix I, *Federal Agency Responsibilities for Maintaining Records About Individuals*, 28 November 2000

OSD Memorandum, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, 5 June 2009

***Adopted Forms***

AF Form 847, *Recommendation for Change of Publication*

AF Form 1768, *Staff Summary Sheet*

AF Form 3227, *Privacy Act Cover Sheet*

DD Form 1144, *Support Agreement*

DD Form 1149, *Requisition and Invoice/Shipping Document*

DD Form 2923, *Privacy Act Data Cover Sheet*

***Abbreviations and Acronyms***

**AAO**—Area Audit Office

**ACC**—Air Combat Command

**ACO**—Administrative Contracting Officer

**AFAA**—Air Force Audit Agency

**AFAA MIS**—AFAA Management Information System

**AFI**—Air Force Instruction

**AFMAN**—Air Force Manual

**AFMC**—Air Force Materiel Command

**AFOSI**—Air Force Office of Special Investigations

**AFPD**—Air Force Policy Directive

**AICPA**—American Institute of Certified Public Accountants

**ALC**—Air Logistics Center

**ANG**—Air National Guard

**BRAC**—Base Realignment and Closure

**CAATTs**—Computer Assisted Auditing Tools and Techniques

**CDA**—Centrally Directed Audit

**CDAP**—Centrally Directed Audit Program

**CONUS**—Continental United States

**CoP**—Community of Practice

**DAMIS**—Defense Automated Management Information System

**DCAA**—Defense Contract Audit Agency

**DCMA**—Defense Contract Management Agency

**DFAS**—Defense Finance and Accounting Service

**DISA**—Defense Information Systems Agency

**DLA**—Defense Logistics Agency

**DoDI**—Department of Defense Instruction

**DoD OIG**—Office of the Inspector General, Department of Defense

**DRU**—Direct Reporting Unit

**FIPS**—Federal Information Processing Standard

**FLITE**—Federal Legal Information Through Electronics



**FMFIA**—Federal Managers’ Financial Integrity Act

**FOA**—Field Operating Agency

**FOIA**—Freedom of Information Act

**FOUO**—For Official Use Only

**GAGAS**—Generally Accepted Government Auditing Standards

**GAO**—Government Accountability Office

**MAJCOM**—Major Command

**MWR**—Morale, Welfare, and Recreation

**NAFI**—Nonappropriated Fund Instrumentality

**NIST**—FIPS —National Institute of Standards and Technology Federal Information Processing Standard

**NSN**—National Stock Number

**O&M**—Operation and Maintenance

**OCR**—Office of Collateral Responsibility

**ODIG**—AUD—Office of the Deputy Inspector General for Auditing

**OIs**—Operating Instructions

**OPR**—Office of Primary Responsibility

**OSD**—Office of the Secretary of Defense

**PA**—Privacy Act

**PII**—Personally Identifiable Information

**PKI**—Public Key Infrastructure

**PMB**—Potential Monetary Benefits

**PSDC**—Purpose, Source, Details, and Conclusion

**RDS**—Records Disposition Schedule

**SAP**—Security Assistance Program

**SAR**—Summary of Audit Results

**SECAF**—Secretary of the Air Force

**TBD**—To Be Determined

**TDY**—Temporary Duty

(See paragraph 1.4.3. for related text.)

## Attachment 2

### RISK FACTORS

**A2.1. Mission/Goals (20).** (Note: The number in parentheses is the risk criteria weighting factor.)

A2.1.1. **Definition.** Importance of the audit subject to the mission statement, combat readiness levels, or goals of the audit entity.

- (5) High - Significant impact
- (3) Med - Moderate impact
- (1) Low - Minimal impact
- (0) N/A

A2.1.2. **Comment.** Risk increases as projects directly impact the weapon system or Air Force mission. For example, direct impact audits of flying hours, maintenance, logistics, and other mission capability subjects would receive high ratings. Indirect impact audits of communication nets and computer systems would receive medium ratings. Audits of dormitory utilization, clubs, billeting, and reproduction would receive low ratings.

**A2.2. Fraud, Waste, or Abuse (15).**

A2.2.1. **Definition.** Vulnerability of the audit subject to fraud, waste, or abuse.

- (5) High - Very vulnerable
- (3) Med - Moderately vulnerable
- (1) Low - Minimally vulnerable
- (0) N/A

A2.2.2. **Comment.** Risk increases when government assets can be easily converted to personal gain or use. Assets convertible to personal use include: cash and cash-related instruments as well as assets that could be sold easily or used within a home or other non-work environment. Also, an organization's risk increases with increased disbursing/purchasing authority. For example, audits involving significant quantities of cash or Government Purchase Card purchases, voucher and invoice payments, military or civilian pay, or large quantities of personal computers or vehicle parts would receive high ratings. Audits involving smaller quantities of convertible assets or budgets would receive medium to low ratings. Audits involving no convertible assets would receive no rating.

**A2.3. Management Suggested Subjects (11).**

A2.3.1. **Definition.** Installation officials requested/suggested the audit subject.

- (5) Yes
- (0) No

A2.3.2. **Comment.** If management requested/suggested the subject, it receives a "5" rating. If the subject was obtained from any other source, it receives a "0" rating.

**A2.4. Resources (15).**

A2.4.1. **Definition.** The audit subject's dollar value of transactions, number of people involved, asset value, etc.

- (5) High - More than 5 percent of the audit entity's resources (e.g., budget, personnel, assets, and transactions)
- (3) Med - Between 1 and 5 percent of the audit entity's resources
- (1) Low - Less than 1 percent of the audit entity's resources
- (0) N/A

A2.4.2. **Comment.** Resources used should be those needed to accomplish the mission (e.g., launch and maintain the weapons systems) without consideration of the value of the actual weapon system and major components. Resources to consider include high-value equipment assets, computer equipment, vehicles, personnel costs, O&M budget, etc. For example, an audit of the jet engine shop would not consider the value of the aircraft engines or the aircraft. However, the audit would consider the value of equipment, tools, personnel, and other resources used to manage jet engines in relation to the combined values of like items for the audit entity. Most but not all audit subjects will score low to medium in the resources area as they relate to resources for the audit entity. This is corrected through use of the subject's entire risk assessment score as it is impacted by other risk criteria such as mission/goals or management suggestions. One example of a subject that will score high in the resources area is certain contract audits that cost over 5 percent of an audit entity's O&M funds and use large quantities of time and personnel to oversee contract operations.

#### A2.5. Public Criticism (7).

A2.5.1. **Definition.** Sensitivity of the audit subject to adverse public opinion or criticism.

- (5) High - Congress or Air Force very concerned
- (3) Med - Congress or Air Force moderately concerned
- (1) Low - Congress or Air Force minimally concerned
- (0) N/A

A2.5.2. **Comment.** Examples of audits where the Air Force is very concerned about public criticism include environmental, acquisition/purchasing, and unit inactivation and personnel cutback projects. Conversely, audits of basic support functions, such as morale, welfare and recreation (MWR), usually create little concern. However, MWR audits that result in fraud conditions can also result in heavy public criticism.

#### A2.6. Public Law (7).

A2.6.1. **Definition.** Audit subject impacted by public law.

- (5) Yes
- (0) No

A2.6.2. **Comment.** If an audit subject pertains to federal, state, or local laws, the subject receives a 5 rating. If the subject does not pertain to federal, state, or local laws, it receives a 0 rating. Examples of subjects impacted by public laws are environmental, medical, personnel management and injury compensation, and child care.

#### A2.7. Internal Controls (10).

A2.7.1. **Definition.** Controls to protect government interests and assets and promote the accuracy of reported financial results.

- (5) High - Limited or non-existent controls

- (3) Med - Adequate controls or no basis for assessment
- (1) Low - Significant internal controls

A2.7.2. **Comment.** This risk criteria is based on the audit team's experience with the subject and knowledge of past internal management control program and other internal control reviews.

#### **A2.8. Prior Audit Coverage (6).**

A2.8.1. **Definition.** Amount of time since last audit.

- (5) High - More than 5 years
- (3) Med - More than 2 but less than 5 years
- (1) Low - Less than 2 years

A2.8.2. **Comment.** Time since last audit by AFAA, GAO, DoD OIG, or public accountant.

#### **A2.9. Mission Changes (9).**

A2.9.1. **Definition.** Changes in the audit entity's mission, products/services, personnel, systems, or financial results.

- (5) High - Changes are dynamic and far-reaching to the audit entity
- (3) Med - Changes are dynamic and impact a particular organization
- (1) Low - Changes have minimal impact
- (0) N/A

A2.9.2. **Comment.** High-risk examples include unit deactivations or major funding changes affecting the entire audit entity. Medium risk examples include the contracting out of selected functions such as housing maintenance within civil engineering. Low risk examples include small changes in personnel, funding, or other requirements.

#### **A2.10. Manager Override.**

A2.10.1. **Definition.** The audit supervisor overrules the calculated priority score and declares this an audit of higher or lower priority.

A2.10.2. **Comment.** Low scoring projects may move up in priority to balance the audit plan or simply because of the audit supervisor's judgment. However, the audit supervisor must justify the increased priority. High scoring projects may move down in priority to balance the audit plan, because of judgment, or because of some limiting factor. Limiting factors include personnel, experience, cost, etc.

(See paragraph 10.3.2.2. for related text.)

### Attachment 3

#### COMPUTER-PROCESSED DATA RELIABILITY REPORTING

The following examples address different scenarios regarding the use and reliability of computer-processed data obtained during audits. When writing the “Extent of Coverage” paragraph, auditors should use one of the following examples, or a customized variation thereof, to describe their assessment of the computer-processed data. Personnel should refer to GAO-09-680G for additional information on assessing and reporting the reliability of computer-processed data. **Note:** If auditors use computer-processed data only for background or informational purposes, citing the source of the data is sufficient.

**A3.1. Background Information Only.** We extensively relied on computer-processed data contained in the (name) System; however, we used the data for informational purposes only.

**A3.2. Reliable Data—Review of System Controls and Other Data Tests.** We extensively relied on computer-processed data contained in the (name) System. We assessed the reliability of data, including relevant general and application controls, and found them adequate. To establish data reliability, we compared output data to manual documents to validate data accuracy; reviewed output products for obvious errors, reasonableness, and completeness; recalculated totals to verify math operations; and tested the system’s edit checks to validate the rejection of erroneous data. (Other tests may be listed.) Based on these tests, we concluded the data were reliable in meeting the audit objective.

(**Note:** If necessary, disclose any data limitations, such as:

1. Stating why data usage would not lead to an incorrect or unintentional conclusion.
2. Explaining how limitations could affect any expansion of the conclusion.
3. Stating data limitations are minor in the context of the engagement.)

**A3.3. Reliable Data—Data Tests Only.** We extensively relied on computer-processed data contained in the (name) System. To establish data reliability, we compared output data to manual documents to validate data accuracy; reviewed output products for obvious errors, reasonableness, and completeness; and recalculated totals to verify math operations. Based on these tests, we concluded the data were sufficiently reliable in meeting the audit objective. (See “Note” in A3.2.)

**A3.4. Not Sufficiently Reliable Data.** We extensively relied on computer-processed data contained in the (name) System. For example, the results of data tests could have shown an error rate that casts doubt on the data’s validity (describe the problems with the data, as well as why using the data would probably lead to an incorrect or unintentional conclusion). Another possible problem that would make the data unreliable is if there was no supporting information to verify the accuracy of the data you intended to use in the audit. In this case you would need to find other data to use as your audit support. Since the audit objectives required specific statements based on this data and sufficient, appropriate evidence was not available, we were unable to provide specific projections, conclusions, or recommendations. Often this situation will result in a related finding and recommendation.

**A3.5. Data of Undetermined Reliability—No Material Effect on Audit Results.** We extensively relied on computer-processed data contained in the (name) System without conducting tests to confirm the data’s reliability. We did not establish the data’s reliability

because (state reasons). In our opinion, however, it is reasonable to use the data since (explain the reasonableness of using the data, for example: these are the only available data on the subject; the data are widely used by outside experts or policy makers; or the data are supported by credible corroborating evidence).

**A3.6. Data of Undetermined Reliability—Material Effect on Audit Results.** We extensively relied on computer-processed data contained in the (name) System without conducting tests to confirm the data's reliability. We did not establish the data's reliability because (state reasons). In our opinion, not making the evaluation had (state known effect on audit results). Often this situation will result in a related finding and recommendation.

(See paragraph **9.6.3.** for related text.)

## Attachment 4

### NONCONCURRENCE RESOLUTION

**A4.1. Purpose.** This attachment provides detailed guidance to AFAA representatives and SAF/AGA for preparing and processing memorandums resolving nonconcurrences with installation-level reports.

**A4.2. Preparing Resolution Memorandums.** The AFAA representative (for MAJCOM resolutions) or SAF/AGA (for HQ USAF resolutions) will prepare a memorandum to document the resolution agreement. **Note:** Do not issue resolution memorandums during 21 through 31 March and 20 through 30 September, unless the end of the 6-month resolution period would fall within these dates, to accommodate the Followup Status Report.

A4.2.1. Subject. The memorandum subject will be Resolution of Nonconcurrence - report number and title, location, and date of report.

A4.2.2. Addressee. Address the memorandum to the MAJCOM commander (for MAJCOM resolutions) or the appropriate HQ USAF element (for HQ USAF resolutions). See paragraph A4.3 for complete distribution requirements.

A4.2.3. First Paragraph Requirements. In the first paragraph, identify the specific paragraph or portion of the report in disagreement (finding, recommendation, and/or PMB). Explain why there is a disagreement (i.e., management nonconcurred, management comments did not adequately address the findings and recommendations, or AFAA did not receive the management comments within the prescribed time limit (see AFAAI 65-101, Chapter 5, and AFAAI 65-102, Chapter 4).

A4.2.4. Succeeding Paragraphs. In succeeding paragraphs, include information identified in the subparagraphs below pertinent to the disagreement being addressed. Required information will vary depending on individual circumstances and whether the resolved disagreement was in favor of audit or management. The memorandums will not specify that the resolved disagreement was in favor of audit or management.

A4.2.4.1. Include any additional explanatory comments considered necessary.

A4.2.4.2. Clearly state the final agreed-to resolution for each issue being addressed (e.g., “the MAJCOM has directed the base to redistribute the vehicles identified in paragraph x.” or “the required vehicles identified in paragraph x meet the mission needs.”).

A4.2.4.3. Identify any actions required or completed by management and the estimated or final completion dates for each action.

A4.2.5. Last Paragraph Requirements. The last paragraph should identify the titles of pertinent personnel involved with the resolution. Include the titles of AFAA and management officials with whom the resolution action was coordinated or discussed. Also, include the name and telephone number of the AFAA point of contact for questions or further information regarding the nonconcurrence.

**A4.3. Distributing Resolution Memorandums.** Send information copies of the resolution memorandum to the same offices that initiated and initially received the report of audit. Show both internal and external distribution in the "cc:" element of the memorandum.

A4.3.1. Air Force-Level Resolution. SAF/AGA will address resolution memoranda to applicable HQ USAF recipients; the MAJCOM audit focal point and deputy chiefs of staff; the AFAA representative; HQ AFAA/DOO; applicable AAO, region, and directorate; and audit control point for CDAs (if applicable). Send copies to all offices/organizations involved with the resolution.

A4.3.2. MAJCOM-level Resolution. AFAA representatives will distribute resolution memoranda to the MAJCOM audit focal point; applicable MAJCOM deputy chiefs of staff; HQ AFAA/DOO; applicable AAO, region, and directorate; and the audit control point for CDAs (if applicable). Send copies to all offices/organizations involved with the resolution.

(See paragraphs **15.3.1.2.1.1.**, **15.3.1.2.2.**, and **15.3.1.3.1.1.** for related text.)



**Attachment 5****EXAMPLE EVALUATIONS OF MANAGEMENT COMMENTS**

**A5.1.** Management comments addressed the issues raised in the audit result, and management action taken or planned should correct the problem.

**OR**

**A5.2.** Management comments addressed the issues raised in the audit result, and management action taken or planned should correct the problem. However, management disagreed that there were any potential monetary benefits. (The auditor must now rebut management comments related to monetary benefits and process as a nonconcurrency.)

**OR**

**A5.3.** Management comments addressed the issues raised in the audit result but disagreed with our conclusions, and/or the potential monetary benefit, and/or our recommendation(s) and took no (or inadequate) action on the recommendation(s). (The auditor must now rebut management comments and process as a nonconcurrency.)

**OR**

**A5.4.** Management comments did not address all issues raised in the audit result, and management took no action (or took action that will not, in our opinion, correct the problem). (The auditor must now rebut management comments and process as a nonconcurrency.)

**OR**

**A5.5.** Although management disagreed with the audit result and/or recommendation(s), they have taken (or plan to take) action that should correct the problem. (Do not process as a nonconcurrency.)

**OR**

**A5.6.** Management comments addressed the issues raised in the audit results, and management actions planned (recommendations A.1. and A.2a.), alternative actions taken (recommendation A.2b.), and alternative actions planned (recommendation A.3.) are responsive.

(See paragraphs **17.9.5.3.** for related text.)

## Attachment 6

### EXAMPLES OF “FUNDS PUT TO BETTER USE”

**A6.1. Canceling/Reducing Supply Requisitions.** Auditors often identify requisitions that are no longer needed. If local O&M funds are reinstated by canceling or reducing an order from supply, auditors may claim a PMB. For example, if the audit determines a base unit ordered a supply item no longer needed and canceling the order will reinstate base O&M funds, the auditor may claim a PMB as “funds put to better use.”

**A6.2. Reducing/Redistributing Equipment.** Redistributing local excess equipment may improve overall productivity or readiness. To claim the PMB, the auditor must demonstrate the effect excess equipment will have on ongoing or planned procurement (i.e., the auditor must include corresponding budget information in the process). Excess assets reported on accountability records will not result in a PMB. Therefore, malpositioned assets requiring redistribution are not a PMB.”

**A6.3. Deferring Supplies and Equipment Procurement.** To claim a PMB for a recommendation to defer the procurement of supplies (locally funded purchase requests) or equipment (materiel requisitions on order), the deferment must be for at least 2 years.

**A6.4. Reducing Energy Consumption and Related Costs.** These are savings anticipated from recommended energy conservation measures or from recouping reimbursable utility costs.

**A6.5. Reducing Resource Expenditures/Increasing Revenue.** A PMB may result from efforts to combine, automate, or streamline certain functions by buying or using more efficient methods or equipment, thus reducing overall ongoing or planned expenditures (e.g., funds expended for operating or labor costs). The auditor must offset the PMB amount by onetime or unusual costs associated with implementing the recommendations.

**A6.6. Reducing Operating Costs.** Combining functions or eliminating operations the Air Force does not fully use can result in a PMB as the Air Force will then operate more efficiently.

**A6.7. Eliminating Personnel Authorizations.** Recommendations to eliminate personnel authorizations by realigning, consolidating, or discontinuing functions may not reduce overall manpower authorizations; however, it will permit reutilizing existing authorizations in other areas of need. In many cases, managers will transfer the billets no longer needed in one area to other functions not fully staffed because of personnel or funding limitations.

**A6.8. Canceling/Partially Terminating Contracts for Unneeded Services.** This includes canceling contracts for educational, technical, or cleaning services appropriately offset by termination costs.

**A6.9. Discontinuing/Reducing Programs to Produce, Re-Manufacture, Modify, Overhaul, or Repair Government Real Property or Personal Property.** This covers reducing both base- or depot-level maintenance and real property maintenance, as well as repair of tools, clothing, or other equipment.

**A6.10. Canceling/Reducing Military Construction Projects.** Auditors may claim a PMB for a recommendation to reduce the scope of or cancel an approved, funded military construction project. Auditors may also claim benefits for a recommendation to cancel an unfunded construction project as “funds put to better use” provided audit can demonstrate the project will

be funded during the most current year and the next 5 years. **Note:** This exception applies only to construction projects. For other types of projects (minor construction, repair, etc.), evidence must exist of planned procurement.

**A6.11. Deobligating Funds.** Auditors may identify unliquidated obligations that may be deobligated. As long as the funds are not canceled, they may be reported and are considered “funds put to better use.” Deobligation of canceled funds cannot be reported as PMB.

(See paragraph **17.3.1.** for related text.)

## Attachment 7

### EXAMPLES OF DATA TO INCLUDE IN SUPPORTING WORKING PAPERS

**A7.1. Supporting Working Papers.** Supporting working papers are comprised of any data the auditor needs to build a firm, evidential structure as a base for findings, their causes and effects, and related recommendations. It is not practical to try and develop an all-inclusive list that identifies every type of document or data auditors may use as support for audit findings. However, the paragraphs below describe some of the more common types:

A7.1.1. Schedules. Schedules are among the most common types of supporting documentation auditors will prepare within the general guidelines of paragraph [6.5.2](#)

A7.1.2. Documents and Completed Forms. Generally, auditors extract pertinent data from completed documents onto exhibits or schedules. However, there may be instances when it is prudent to scan or make copies of forms or documents for the working paper file. Documents that support findings involving fraud, waste, or abuse are prime candidates for scanning or copying, as the originals sometimes become altered or "lost." Examples within this category are inventories, sales slips, issue/receiving documents, travel vouchers, and base civil engineer documentation in support of repair, maintenance, and minor construction work.

A7.1.3. Flow Charts. These charts depict the required flow of documents and materials through an organization or process. If the actual flow is different from that required by prescribed directives, then make another flow chart depicting the actual flow, thus providing a visual presentation of the variances. Flow charts are especially effective in documenting internal control reviews. Use standard symbols in the preparation of flow charts.

A7.1.4. Internal Control Analyses. These working papers will contain documentation of internal control reviews accomplished in accordance with government auditing standards. The analyses will normally follow the flow chart working papers if prepared in conjunction with the control review.

A7.1.5. CDAP Response Sheets. The usual method AAOs use to report data to the audit manager (paragraph [4.2.2.2](#)).

A7.1.6. Photographs. Photographs can effectively support findings in both the working papers and related audit reports. Photographs of improperly maintained supply or equipment storage areas, safety hazards, and buildings involved in disputes over maintenance or repair versus minor construction are but a few examples where the use of photographs are beneficial. Include in the working paper the name of the individual who took the photograph, the date, time, and location taken, and state specifically what the photograph represents. **Note:** Prior to taking photographs, check with management officials to determine if there are any security restrictions that would preclude photography.

A7.1.7. Discussions. Document discussions relating to the project. Use memorandums for the record or document discussions and other contacts with management within the procedures step. See paragraph [9.2.3](#) for guidance on the use of testimonial evidence.

A7.1.8. Sampling Data. These working papers will contain sampling data including the sample universe, sample selection criteria, results, and projections.

A7.1.9. Computer Schedules/Listings. For computer data, extract and record the sample data within a procedures step or within a supporting working paper file (cross-reference appropriately). The auditor should describe the specific software and/or system used and steps taken to extract the data to obtain the results. The narrative should be in sufficient detail to allow a knowledgeable auditor to re-accomplish the process and achieve the same results. Conversely, the auditor can reference the extracted data to the source listing in a separate working paper file.

A7.1.10. Directives. Normally, auditors include directives in working papers only by reference (i.e., directive number, date, subject, and applicable paragraph). However, there may be occasions to extract or copy selected portions of a directive, particularly those with limited distribution (technical orders, procurement directives, etc.). When necessary, extract or copy only that part of the directive pertinent to the issue at hand. Include the directive number, date, subject, and paragraph extracted if not evident on the copy.

(See paragraph 6.6. for related text.)

## Attachment 8

### PERSONALLY IDENTIFIABLE INFORMATION DEFINITION / EXAMPLES

#### DEFINITION

Personal Information. Information about an individual that identifies, links, relates, or is unique to, or describes him/her. Such information is also known as personally identifiable information (i.e., information that can be used to distinguish or trace an individual's identity).

#### EXAMPLES OF PII

1. Name
2. Social Security Number
3. Date and place of birth
4. Mother's maiden name
5. Biometric records (fingerprint, iris scan, DNA)
6. Office and duty telephone numbers
7. Past and present annual salary rates
8. Medical history associated with an individual
9. Criminal history associated with an individual
10. Financial information associated with an individual
11. Civilian educational degrees and major areas of study (unless the request for the information relates to the professional qualifications for Federal employment)
12. Any other personal information which is linked or linkable to a specified individual

#### EXAMPLES OF NORMALLY RELEASABLE PII

Below are some examples of PII that normally may be released without a clearly unwarranted invasion of personal privacy and do not require the owner's consent:

1. Name<sup>1</sup>
2. Office and duty telephone numbers
3. Past and present annual salary rates
4. Past and present position titles
5. Past and present grades
6. Past and present duty stations
7. Professional military education
8. Biographies and photos of key personnel
9. Date of retirement, separation

**Note:** Examples are not all inclusive. For additional examples refer to DoD 5400.11-R; AFI 33-332; CFR 5, Section 293.311; and OSD Memorandum, *Safeguarding Against and Responding to Breach of Personally Identifiable Information*, 5 June 2009.

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<sup>1</sup> It is DoD policy that the names of employees below O-7 (and civilian equivalents) are NOT releasable to the general public in response to a FOIA request unless the individual is a "Director". Therefore, unless the name is tied to a "Director" position, names of current employees below O-7 (and civilian equivalents) must be redacted.

(See paragraph **5.4.** for related text.)